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## CONTENTS






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# The Good Neighbor

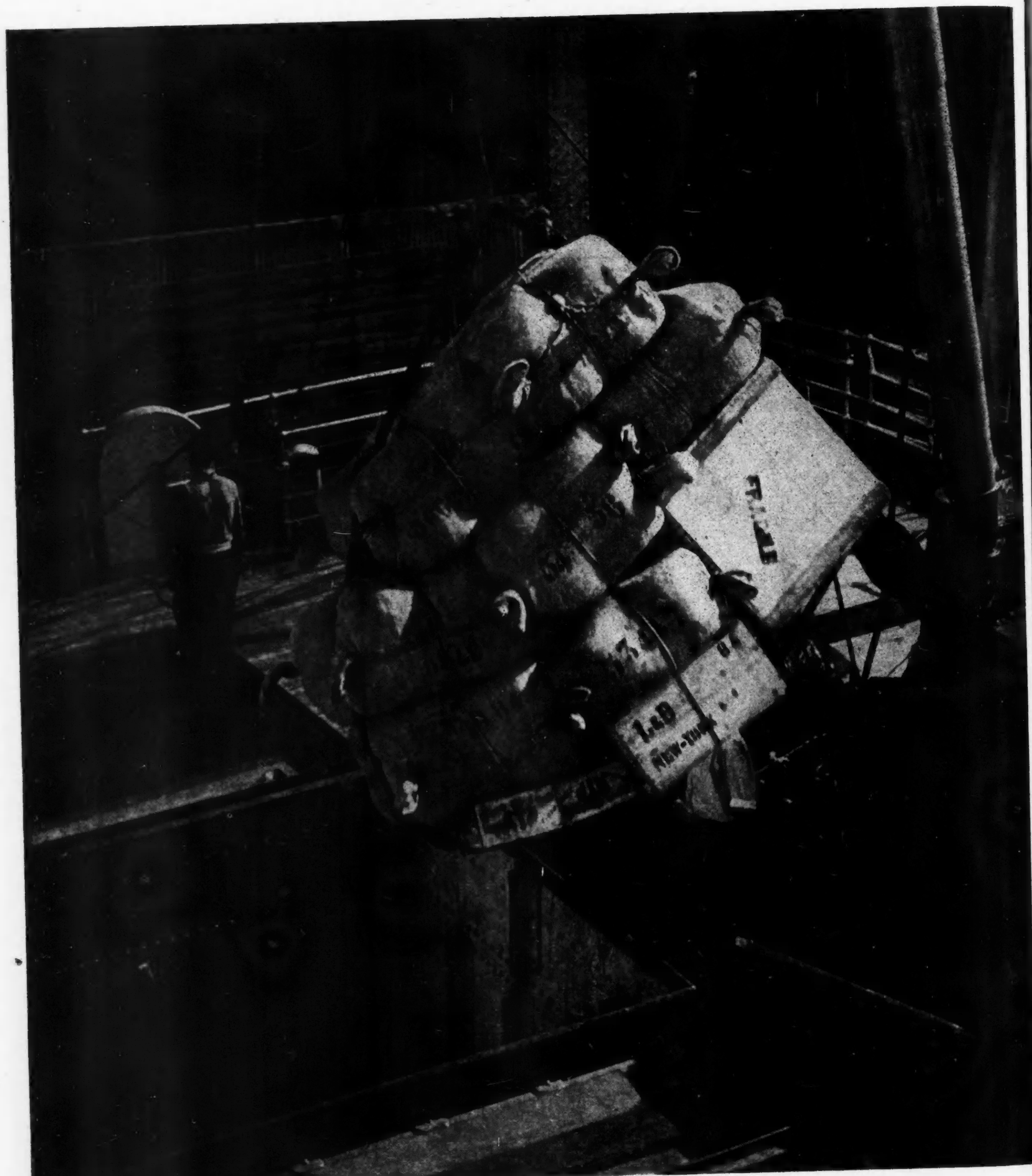
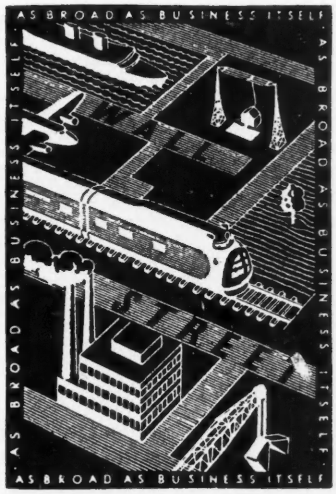


*Photo by Gendreau*

**On the United States rests the humanitarian responsibility for feeding and clothing Europe's millions of homeless and destitute people, facing starvation and disease. We will do it, even if we have to tighten our own belts a notch or two—but there will still be ample for all of us.**

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*




# The Trend of Events

**CONGRESS AND WAGE-PRICE FORMULA . . .** In view of the widespread confusion over the wage-price program, it is well to remember that while for the next four months industry will have to swallow the pill on a kill or cure basis, Congress is likely to write a different or greatly altered prescription for the final half year. Fortunate indeed is it that our lawmakers for many weeks past have considered it wise to defer action on Administration pressure to extend the Price and War Controls Acts. Had they been stampeded into hasty action, chances that any relief from wartime curbs could be afforded the nation's peacetime economy for six months or a year from July 1 would be slim. As matters stand, the last half of the present year, when production should be soaring to new heights, will be far more important in significance than the interim period of early convalescence. At that time, any alleviation from rigid restrictions will become doubly welcome.

After measured consideration of the President's long-delayed economic formula, and after a full airing of all conflicting views on the highly debatable measure, Congress appears certain to express itself emphatically to correct major flaws in the program. Opposition forces are not blind to the realities of the situation, either political or economic, nor is this most drastic of all Administration blunders likely to be whitewashed through a Congress already on record as strongly opposed to most previous measures emanating from the White House. Attempts by Messrs Bowles and Snyder to draw the red herring of inflation across the path, or to obscure the tragic error of a Government-sponsored wage boost on the lame pretext that wartime controls were merely lifted too soon, will be treated as political nonsense. The cold blooded adherence of the earning base for industry to a short sub-normal period which began a full ten years ago will not pass unnoticed. If any credit base at all appears wise, simple justice should point to the 1939-41 period or even a recent section of war years when EPT held profits to a reasonable level. Some degree of protection to investors and encouragement to venture capital must be injected into the formula. As labor, capital groups, agriculture and both big and small business have become highly vocal in criticisms of the plan, and its implementation will tremendously swell administrative outlays, watch Congress tie a knot in the tail of OPA.

**"IT CAN'T HAPPEN HERE" . . .** Granting more than one valid excuse to Mayor O'Dwyer for his arbitrary strangulation of all activities in New York City because of the tug boat strike, the fact that such an event could happen at all highlights the danger to all the political concepts for which the nation has bled. Claims by the Mayor that he was misinformed as to available fuel supplies and that imminent disaster threatened, in his sincere belief, may have warranted his impulsive action. But transcending all motives is the result that eight million citizens practically had to stop living for 18 hours because a handful of union strikers wanted a pay boost. And when the Government took over, armed with full authority under the law to force the strikers back to work, action was limited to importation of some 45 tugs from other cities, while 400 others continued idle at their piers. After several

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : 1907—*"Over Thirty-nine Years of Service"*—1946

days of pleading and arguing, an agreement to arbitrate ended the strike, with union leaders wearing broad grins because they had forced complete work stoppage for a day in the country's largest city to prove the power of a tiny minority. Similar disruption of normal life has also occurred in other big cities for the same basic reasons, and unless Congress takes immediate steps to prevent their recurrence, rule by majority will become a mockery in our "free" economy. Lip service by politicians to the poorly termed "common man" and a nauseating payoff for Communist-backed money and votes has gone too far. Never before has an unorganized and consequently "under-privileged" vast majority of voters had such a constructive chance to curb injustice and destroy unholy alliances as will present itself in the Fall elections. That misled and impoverished strikers, too, may change their views is not unlikely.

**NOW-I-WANT-MINE . . .** Pressure groups and lobbyists are conspicuous elements in the Washington scene and have been for a long time. They profess to represent the best interests of some particular group, which means in practice that their principal concern is to wheedle privileges and concessions from the Government and to forestall any Government action detrimental to their group. Their influence for the most part is proportionate to the money or votes they command.

Chester Bowles, new stabilization director, has coined a more expressive name for them. Appearing before the House Banking and Currency Committee, Mr. Bowles referred to them as "the now-I-want-mine boys." He expected momentarily to hear loud cries from them, demanding "fair treatment" and otherwise obscuring their selfishness with vague economic cliches, at which they are past masters.

Witness, for example, the following joint statement of the heads of two farm organizations, National Farmers' Union and the American Farm Bureau Federation:

"We must adopt an across-the-board, horizontal concept which accepts the thesis that what is good for the national interest or a majority of our citizens is the best self-interest any or all of our three groups (industry, labor and farmers) can possibly have."

Stripped of its verbiage, this means simply that these farm groups are preparing another drive for higher farm prices, on the grounds that they are needed to offset the rise in the prices the farmer will have to pay for manufactured goods. This is only the beginning, we can expect to hear from other groups in short order.

What about salaried employees and other white collar workers? The farmers' argument applied to them is even stronger. They will have to pay more not only for manufactured goods, but for what they eat, as well. This sort of thing could go on endlessly, or at least to the ultimate atomic collapse. It is inflation at work.

If "Hold the Line" is to mean anything at all, the time to do it is now. Only a small segment of industry, employees, farmers and others with a vast stake in the nation's economic welfare is represented by, or agree with, the expressed views of these self-centered pressure groups and vote-hungry legislators. Let's hear from the majority—and make it emphatic. Washington can be forced back to common sense policies, but not by letting the other fellow do it.

**MORE GOLD . . .** As if the factors making for inflation were not already too plentiful and active, a new one has made its appearance on the economic horizon. While it is still "no larger than a man's hand," it may well attain significant proportions over the coming months.

For the first time in four years, the monetary gold stock of the United States increased. During December and January there was an aggregate increase in gold holdings of **$126,000,000**. The steady inflow of gold which, during the seven years ended with **1941** added **$15,000,000,000** to holdings, was reversed during the war and stocks were reduced **$2,500,000,000**, reflecting principally payments to Latin American and other neutral nations for exports to the United States. At the end of last November, the monetary gold stock stood at **$20,030,000,000**, the lowest figure in nearly four years.

There is every indication that over the next few years the monetary gold stock in the United States will expand to a new high. With Lend-Lease ended, foreign buyers of our goods and commodities will have to pay for them. At the present time foreign central banks and governments have **$4,316,000,000** in gold earmarked at the Federal Reserve banks and, assuming that the international currency stabilization program is successful, a large portion of these holdings will be converted into dollar balances.

Adding to gold holdings has the effect of expanding member bank reserves, which could be offset only if Federal Reserve banks reduce their holdings of Government securities correspondingly. With interest rates already at historical lows and the credit base greatly inflated, enlightened and positive action to prevent further inflation is clearly called for.

**DEBT REDUCTION . . .** For the first time in more than fifteen years there will be a reduction in the national debt, as the Treasury pays off **$2,779,720,600** in maturing obligations this month with cash. This is equal to about 1 per cent of the total national debt and $20 for each American, reducing your share and my share of the debt to $1,971.52.

Cutting down the debt is a step in the right direction, but our applause is somewhat tempered by the fact that the Government is using cash which it had previously borrowed for war needs, but no longer requires. In other words, a clear case of borrowing from Paul to pay Peter. The net effect is potentially more inflationary than had the Government elected to *increase* the debt by selling additional securities to individual investors.

# As I See It!

By CHARLES BENEDICT

## AZERBAIJAN CHIEF HINTS DRIVE ON TEHERAN—AS IRANIAN MISSION FLIES TO MOSCOW PARLEY

*The report follows:*

TEHERAN, Iran, Feb. 18—While the Iranian mission was en route to Moscow today to smooth out the political differences between Iran and the Soviet Union and negotiate economic policies affecting the two countries, Jaafar Pishervari, Premier of the pro-Russian Azerbaijan "Government," was quoted as having threatened military action against the Central Government, assertedly to free the entire country from "slavery."

(*New York Times*)

THIS latest news shocks our sensibilities, even though Moscow has for a long time been accustoming the world to her devious diplomacy.

It follows a familiar pattern, and makes clear that Russia is determined not only to secure the oil of Iran, but to make use of her strategic position as a stepping stone to her ambitions in the Mediterranean and the Near East. This regardless of her part in the pact guaranteeing the sovereignty of that state under the Teheran agreement. A facsimile of the document, attested by Stalin, is reproduced below.

Since the collapse of Germany, Moscow has plainly shown her hand, because she considers democratic leadership to be bankrupt of wisdom and courage. Anyone who still (*Turn to page* 675)

**Facsimile of the original text of the Teheran Declaration (Alterations made in Mr. Churchill's handwriting.)**

*Facsimile of the original text of the Teheran Declaration. (Alterations made in Mr. Churchill's handwriting.)*

Released to the Press, 8:00 p.m. Moscow Time, December 6, 1943.

Dec 1, ~~November 30~~, 1943

~~SUGGESTED DRAFT~~ DECLARATION of the Three Powers regarding Iran

The President of the United States, the Premier of the U.S.S.R., and the Prime Minister of the United Kingdom, having consulted with each other and with the Prime Minister of Iran, desire to declare the mutual agreement of their three Governments regarding their relations with Iran.

The Governments of the United States, the U.S.S.R.. and the United Kingdom recognize the assistance which Iran has given in the prosecution of the war against the common enemy, particularly by facilitating the transportation of supplies from overseas to the Soviet Union.

The Three Governments realize that the war has caused special economic difficulties for Iran, and they are agreed that they will continue to make available to the Government of Iran such economic assistance as may be possible, having regard to the heavy demands made upon them by their world-wide military operations and to the world-wide shortage of transport, raw materials, and supplies for civilian consumption.

-2-

With respect to the post-war period, the Governments of the United States, the U.S.S.R., and the United Kingdom are in accord with the Government of Iran that any economic problems confronting Iran at the close of hostilities should receive full consideration, along with those of other members of the United Nations, by [~~any~~] conferences or international agencies held or created to deal with international economic matters.

The Governments of the United States, the U.S.S.R., and the United Kingdom are at one with the Government of Iran in their desire for the maintenance of the independence, sovereignty and territorial integrity of Iran. They count upon the participation of Iran, together with all other peace-loving nations, in the establishment of international peace, security and prosperity after the war, in accordance with the principles of the Atlantic Charter, to which all four Governments have subscribed.

Winston S. Churchill

И. Сталин

Franklin D Roosevelt

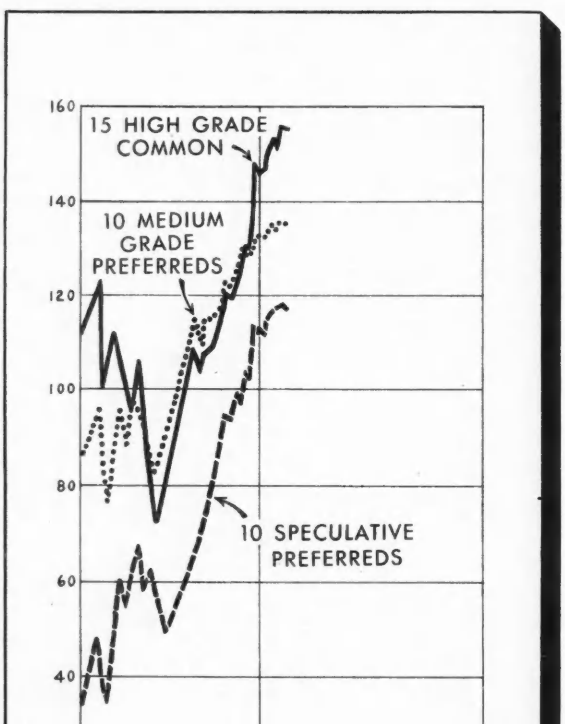
# How Far Can This Market Go?

**The severity of the sell-off, the volume indications, and the deterioration in the 1946 earnings prospects of some key industries all suggest that we probably face a corrective intermediate decline of importance. Where handsome profits are available, we suggest substantial realizing sales as the most prudent course.**

By A. T. MILLER

AFTER a bull market rise of about 353% in our composite index (123% in the Dow industrials) over a period of nearly four years, a reaction so sharp as that of February 18-20 raises three questions: (1) Could it be the beginning of a bear market? (2) Is it an intermediate reaction, likely to interrupt the upward trend for a number of weeks and taking the averages down 10% or more from their peaks? (3) Or is it likely to prove just another "minor" correction, and quickly over?

We do not believe that February 2, date of the average highs, will go into history as the peak of the bull market. There is no question of saturated markets, of excessive production, of inadequate consumer buying power, of over-speculation in business inventories. Thanks to protracted squabbles over wages and prices, we have barely begun the long cycle of peacetime activity required to satisfy the unprecedented accumulation of demands for consumer and capital goods for both domestic and export markets. The basic money-supply factor remains bullish.




On the other hand, every bear market begins with what looks like just another corrective reaction, when the visible economic evidence is still preponderantly favorable, and when not one person in a thousand believes a bear market is conceivable. Even if the signs were less debatable than they always are in the beginning, there would be psychological factors (since nobody wants a bear market) making early recognition nearly impossible. We have already said, in the preceding paragraph, that we think a bear market is most improbable. However, for the moment, let us not rule it out as a *possibility*, to be discussed a bit further hereafter.

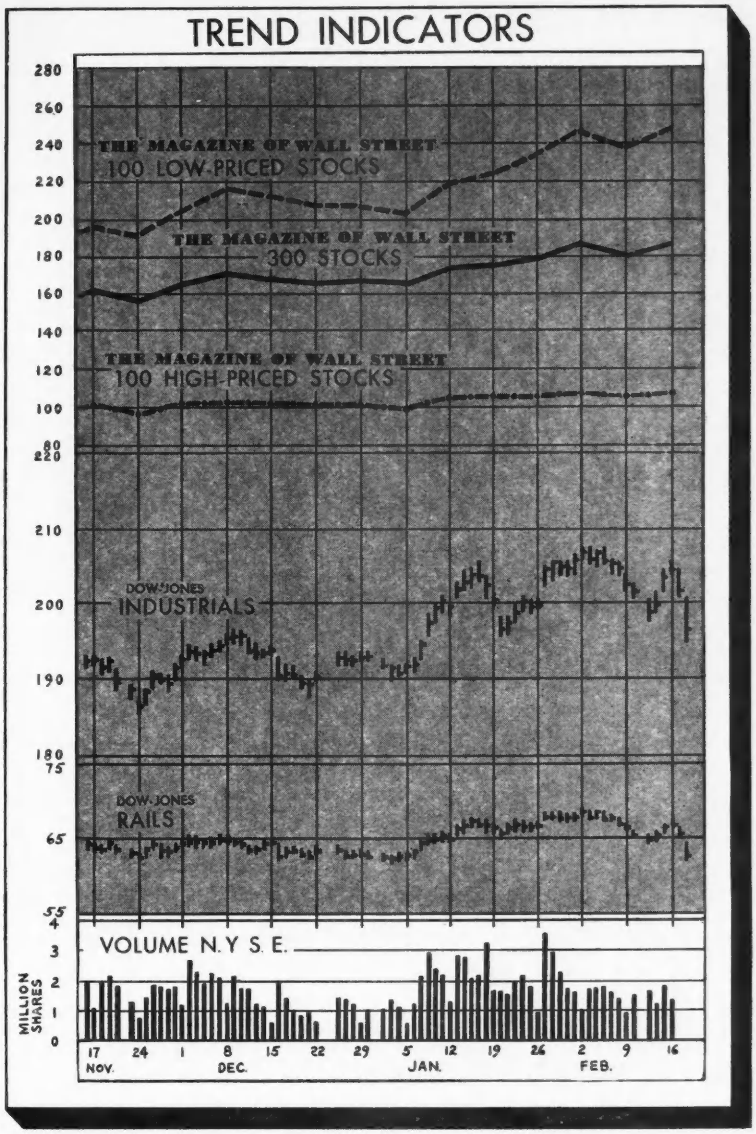
Now let us jump to question No. 3, since the writer already knows that we will arrive, by process of elimination, at the premise of an intermediate reaction, as posed in the second question. We do not think this is "just another minor correction," although in percentage decline from the highs it has not, up to this writing, exceeded by very much the average scope of previous relatively unimportant corrections. It looks "different" in two respects. First, the violence of the decline of February 18-20, and especially of Tuesday, February 19, was something that had not been seen in nearly six years, or since May, 1940, when the civilized world was scared stiff by the German break-through to the English Channel.

Second, the set-back is clearly related to investment concern over the indicated lines of wage-price policy under which the 1946 earnings prospects of a number of important industries do not look too bright—and in relation to these prospects a good many stocks have been too high. Whether or not concern on this score is fully warranted (we think it is), the point is that it cannot be merely a momentary factor.

To sum up: the severity of the fall in prices and the fact that it is tied up with a revision of investment and speculative hopes about the earnings outlook suggest that most likely we are seeing a somewhat protracted intermediate adjustment in the market. To prove this view wrong would require a pretty prompt resumption of the general uptrend, surpassing previous average highs. All we have so

far is a technical rally, on reduced volume, which, as we go to press, has recovered but a relatively small portion of the decline.

There is no rule of thumb for predetermining how long an intermediate reaction may last or how far it may go. Some have cancelled as little as a third of the preceding leg of advance, some as much as two-thirds. Some have lasted several weeks, some several months. The common characteristic is a zigzag downtrend, violating one, or more, previous reaction stopping-points. In the modern cash-market, the initial break is usually the sharpest and fastest, with the rest of the corrective phase somewhat "dragged out." Probably the technical condition of the market has most to do with the severity of the total decline. The psychological factor (in the present instance: fear of OPA profitless-prosperity in the reconversion industries and a few others) will largely determine its duration.




Heretofore, those who have bought promptly on any sizable recession fared well and proved right; and those who waited for "more reaction" generally missed the boat or got in only at considerably higher levels than had been contemplated. We do not deny the possibility that this could prove so again, but we are skeptical of it. The 100% cash market is something new. We can not be sure what its technical behavior will be under any psychological strain, but the initial evidence provided last week was not reassuring. To be sure, people do not have to sell. It is a matter of choice. The stock pressing for sale last week was equal to only a tiny fraction of what had been bought this year to date, much less during the whole bull market—yet it knocked our composite index off 10 points, our index of low-priced stocks off 15.77 points, the Dow-Jones industrial average off about 12 points. What if any appreciable number of holders now get scared of market action and try to grab profits before they dwindle further?

Where one has handsome profits on speculative or semi-speculative holdings, we believe it is now sensible to clinch a goodly portion of them—perhaps a third to half, depending on individual cases. We take that view not because we feel certain of large further decline (there is no certainty about it) but because the possibility, and the uncertainties affecting the medium-term market outlook, warrant a conservative and prudent course.

There are several things to be said for doing a considerable amount of selective selling. First, it clinches profits. Second, it puts one in a more flexible position to take advantage of opportunities uncovered in a reaction, whereby the over-all quality and longer-term promise of portfolios can often be improved. Third, it puts one in a more flexible state of mind about the market. That brings us back to an earlier point. Despite our opinion to the contrary, suppose there might be something, which nobody can now see, which could warrant a bear market or a reaction so deep as to approach a miniature bear market? Taking some profits represents that much insurance against such a possibility — and makes it more likely that one will recognize the bear market signal, when it comes, rather than "argue" with it. Though we greatly doubt that the final peak has been seen, after nearly four years of rise the "reactions" should not be taken for granted as merely that. One of them will prove to be "it," with no prior warning. We are pretty sure this one is not "it"—but it *could* be.—Monday, February 25.

Recession of strikes in key industries will do much to speed production of much needed consumer goods.

Photo by IN[illegible]

—A searching analysis of the business outlook, emphasizing the possible impact of the proposed price-wage formula.

# Where Do We Stand Now?

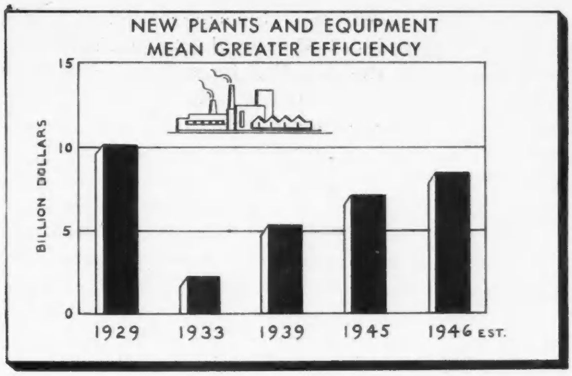
By JOHN D. C. WELDON

AS THE CURTAIN falls on Act II of the exciting reconversion drama, public suspense remains acute over developments which will unfold next, despite general relief that labor and industry appear to be sheathing their swords. Now up for definite shaping and implementation, without benefit of congressional debate as yet, has emerged an involved and far-reaching Administrative program for economic stability and prosperity warranted for the grand finale. Granted that, with minor exceptions, industry will be obliged to struggle as best it can to follow the newly devised pattern before the hoped for goal can be reached, how long and how much must the natural anxiety of investors continue to be strained?

While naturally only time and actual experience can disclose a valid answer to such a broadly conceived question, out of the welter of conflicting opinions have begun to appear occasional reports from this and that source bearing upon various industries and individual concerns. Pieced together, these at least furnish a clue to the problem of time required for resumption of full time production, but sharp differences of estimates as to the workability of the entire program suggest need for caution in appraising potentials of every kind, for the complexities of the picture are enormous. At best, the average investor must rest content with an attempt to weigh the opposing claims of politicians, learned economists, business champions and labor leaders as a basis for studying his 1946 investment outlook. To sift out a few fundamentals from the chaotic puzzle for common sense clarification may prove helpful to the confused holder of securities, and to this common sense approach our discussion will be confined.

Power-thirsty advocates of a Government-planned and controlled economy at the outset of war met common consent to drastic restrictive measures for the following four years and eight months, and the amazing success of the economy under regimentation is a matter of history. Production reached record heights, the national income soared, and while industrial profits were wisely checked by EPT, foresight provided a build-up of working capital and legal tax relief as a bulwark for rapid resumption of normal production in order to assure full employment. Foremost in everybody's mind and discussion were the dangers of inflation which brought widespread misery after War 1. With the stage

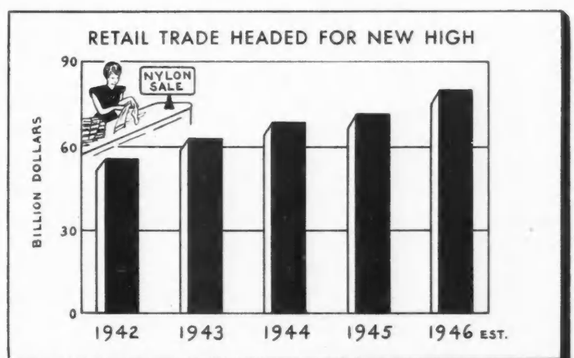
ully set to meet mounting demands for a return o a free economy as wartime exigencies passed from he scene, Mr. Truman promptly lifted many economic controls on the heels of VJ Day, and within he next ninety days another miracle of industrial fficiency served to leap the valley of reconversion. Unemployment fell far short of Government guesses, rder backlogs swelled tremendously, and in a short ime the first trickle of civilian goods reappeared pon the market. Never had the economic outlook eemed brighter, provided allowance had been made for a little more time in which to correct by degrees any foreseeable handicaps such as wage disputes and inflationary factors.



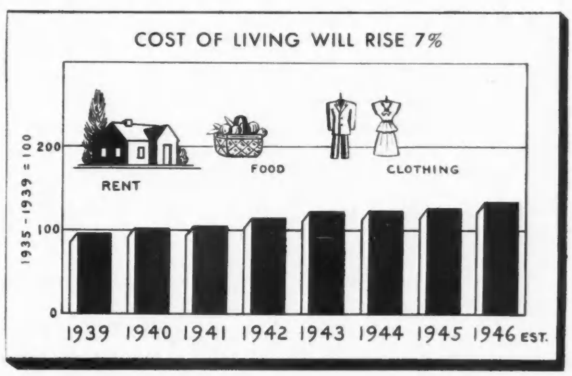

#### Conflicting Action

Unfortunately, as it happened, advisory opinion in Administrative circles was sharply divided, New deal theorists were reluctant to see controls again slipping, and labor became restive to regain wage levels established under peak wartime production. In a lame attempt to compromise the fuddle, the President announced that wages could be advanced provided the inevitably wavering price line were strongly held, a premise in direct conflict with every hope of achieving full and unhampered production throughout the economy. As might easily have been anticipated, tragic industrial strife sparked into a nation-wide conflagration, setting the transitional program back on its heels for months and wasting hundreds of millions of dollars for union-led strikers and investors alike.


In the absence of Congressional action, far too long delayed, Mr. Truman has been forced to acknowledge his primary error by granting a $5 per ton price increase to the steel industry as an offset to an 18½ cents per hour wage advance, and this pattern within vague limits is proposed as a general palliative for all industry to adopt. Admittedly, the inflationary pressure will spiral upward, but plans of the Administration now envisage an extension and co-ordination of price controls which, while liberal in theory, will make wartime operations seem like child's play from the viewpoint of advocates of a genuine free economy. Hopes of Washington now center upon most elaborate and expensive controls, avowedly to remain in force until prices soften under the normal weight of competition when and as production outdistances demand. In contrast to earlier policies a few months ago when industry was to be given a near free rein to win the race towards unparallelled peacetime production, just the reverse and then some is in prospect. Wages, prices, taxes, costs and profits must be subject to Federal scrutiny and control for quite a while to come. "Where do we stand now?" is indeed a big question.




Boiled down, the wage-price formula decrees that wage increases may be approved by Federal Authorities providing that they are consistent with the general wage pattern in effect in an industry as of August 18, 1945, or to correct disparities arisen during war years, due to the rising cost of living or gross differences in various industries. As



everyone now knows the Government has favored an average wage boost of around 18 cents per hour, recommended by the so-called Fact Finding Boards. As regards increased prices, the program substitutes relatively prompt action if rising costs impose losses for an enterprise or force earnings below the 1936-39 level. If a concern, however, grants a voluntary wage rise without Federal approval, no application for price relief can be made as a general rule, but exceptions to this provision to aid small enterprises will be established. To administer such a program obviously will be no small matter, and in effect much confusion, red tape, expense and delay will be involved. Yet Mr. Truman claims that his formula will prove a stimulus to production and a sensible answer to inflationary threats. In any event, the tight grip of a planned economy shows no sign of relaxation.

### Congressional Hearings Scheduled

First major reaction to the proposed program will appear when Congressional hearings open upon extension of the Price Control Act which expires June 30th, to be followed by hearings to extend the War Powers Act essentially required to implement the President's new program. Fact is that Congress has been caught napping in the current emergency, for much water has run over the dam, and while debate will awake with a bang, matters have reached such a sorry stage that to avoid disastrous inflation some radical steps will have to be taken. Just where investors stand, however, will become clearer when Congress decides upon the course it will take in meeting the Administrative proposals. If the control laws are extended, they may be severely pruned to alleviate the czarist stranglehold which otherwise will bear upon both industry and labor.

The going in Congressional halls will not be easy, because while popular opinion probably favors restricted price controls over food, clothing and rent, industrial leaders more than ever hold out for removal of all Government controls so that natural forces may be left full play to restore the desirable balance between demand and production. This pressure group foresees insuperable difficulties in establishing fair prices at which countless enterprises can operate—much less expand—without getting into the red, as long as enforced wage costs are thrust into the picture and some Government agency must determine the exact pattern to be followed. Only complete freedom from all restrictions will enable industry to win the battle against inflation, by racing at top speed to smother the market with goods, argues the National Association of Manufacturers. That many Congressmen will share in these contentions may be taken for granted, regardless of party lines.

### Labor Takes Critical Stand

As for labor's say in Congressional Committees, this naturally will carry a lot of weight, and thus far union leaders have been outspoken with criticisms of the proposed program. While basically these stem from fear that wages may now once more be frozen along lines followed by the "Little Steel" formula in war years, opinions already expressed by labor leaders have a broader scope. CIO Thomas brushed the program aside as being meaningless—something which took 30 days rather than 30 minutes to develop. And the A. F. of L. has presented numerous objections to the plan, predicting that it would prove impractical and even disastrous to the economy.

### "Year of Decision"

But first pronouncement of Chester Bowles in his new capacity as head of the FEA is a warning to Congress that if it fails to extend the full powers of OPA an inflationary "explosion" will engulf the economy, to be followed in due course by a far worse depression than hit the country in the early 1920s. While as much truth as fiction may be attributed to such remarks, the question will arise as to whether the proposed curative may not prove worse than the disease, or whether incendiary conscious politicos are not the first to warn of fire. In determining these potentials, an immense responsibility will fall upon our Senators and Representatives when the bills come up for action. Indeed the President spoke truly in terming 1946 as "The year of decision."

### Demand for Higher Farm Prices

Now comes agriculture, another strong pressure group, demanding the abolition of subsidies and loudly objecting to the proposed new formula, unless it is granted the privilege of raising prices along with other forms of industry. This highlights a certainty that before the smoke in Washington clears away, pressure groups of every definition will become exceedingly vocal; to coordinate all aspects of the complex program to suit all hands is going to be a monumental task. Both Mr. Snyder and Mr. Bowles, as might be expected, are strongly on the defensive, appealing to the nation to support Mr. Porter, the new OPA chief, in his efforts to "hold the line" on prices for another year. Assurances are prolific from Washington that pricing policies will be exceedingly fair where mounting wage costs create proven hardship, that the formula is necessary to raise living standards for the workers, that living costs should rise less than 10% during the year and that danger of curtailing industrial profits is a pure illusion. To speed up the program, it is proposed to establish Regional Boards throughout the country, liberally armed with authority to make numerous local decisions.

Intelligent investors and businessmen will find it not only interesting but expedient to weigh the outpour of pros and (*Please turn to page* 671)

# Significant Shifts.... in Investment Trends

By WARD GATES

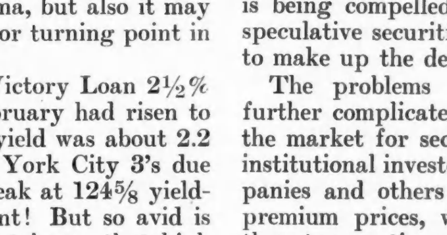
OVERSHADOWED BY THE more feverish activity of the stock market, some unusually spectacular gains have recently been scored in the bond market. Particularly noteworthy is the fact that the uptrend has been paced by the normally staid group of Government obligations. This does not mean that speculative activity has spilled over into the Government bond market. It is much more significant than that, because not only does it intensify an already serious investment dilemma, but also it may well mark the approach of a major turning point in the course of bond prices.

Offered last Fall at par, the Victory Loan $2\frac{1}{2}\%$ bonds in the second week in February had risen to 105 4/32nds, at which level the yield was about 2.2 per cent. The tax-exempt New York City 3's due 1980 in the same week made a peak at $124\frac{5}{8}$ yielding buyers a return of 2 per cent! But so avid is the public demand for investment issues that high prices and low yields are no deterrent.

Corporations which only six months ago found it profitable to refund outstanding obligations with lower coupon issues now find that they are able to repeat the process to even greater advantage. Take the case of Southern Pacific. Less than six months ago, the road marketed an issue of $3\frac{3}{4}\%$ first mortgage bonds. On February 11, the road offered \$50,000,000 40-year $2\frac{7}{8}\%$ first mortgage bonds designed to refund the short-lived $3\frac{3}{4}$'s. The company received 100.6599 for the new bonds which were promptly snapped up when they were publicly offered at $101\frac{1}{2}$. This financing marked a new low interest rate for long term railroad financing. A \$4,500,000 mortgage issue floated by the Madison Gas & Electric carrying a $2\frac{1}{2}\%$ coupon was sold at $102\frac{1}{4}$ to yield 2.39 per cent, or slightly less than the yield on the original offering of Victory Loan bonds a few short months ago.

All of which is, of course, very fine from a corporate fiscal standpoint, resulting as it does in a worthwhile savings in annual fixed charges. But from the standpoint of the individual or institutional investor the consequences are anything but favorable. In an atmosphere where talk of inflation is rife and wages and prices are rising, the investor who is dependent upon the return derived from fixed-income securities is suffering the experience of deflation, and out of sheer desperation is being compelled to either divert funds to more speculative securities or spend a part of his capital to make up the deficiency in investment income.

The problems of the individual investor are further complicated by the fact that he must enter the market for securities in competition with large institutional investors, savings banks, insurance companies and others who cannot only afford to pay premium prices, which their fiscal policies enable them to amortize over the life of the investment, but their standard of living does not have to enter into their calculations. Reduced income from investment portfolios held by savings banks and insurance companies inevitably results in reduced policy dividends and/or higher premiums and lower interest rates on deposits. These consequences are inevitably felt by the prudent individual who has a savings account and is seeking to build up an insurance estate. If he is also an investor, he is being subjected to a veritable broadside of deflation from one quarter, while the necessities of life which he must buy with his income are under irresistible inflationary pressures.




According to the Labor Department, the cost of living for middle-income urban dwellers last December was the highest it has been since 1921, and up nearly 32 per cent since August, 1939. Contributing to the rise was an increase in the price of all basic family items, except rents. On the other hand the rate of return on all classes of bonds and

preferred stocks, as measured by representative average yields on these securities, was at an historical low.

The potential dangers of this "squeeze play" are manifold. It sets up an irresistible temptation to offset the attrition in yields by diverting funds to securities of inferior quality—second and third grade bonds and preferred stocks, common stocks and real estate mortgages, many of which are based on inflated appraisals. The average institutional investor is generally credited with greater acumen than the individual in the choice of media, but the large scale basis upon which there has occured a gradual deterioration in the over-all quality of portfolios could lead to dire consequences in the next period of deflation and business depression.

To find the remedy it is necessary to examine the causes.

Basically, the cause has been the deficit financing program of the Government upon which were superimposed huge wartime borrowings. In order that such financing be done as cheaply as possible the Government, through the Treasury Department, has pursued policies which were deliberately designed to depress and sustain interest rates at extreme low levels. These policies provided the chief impetus to a 12-year bull market in bond prices.

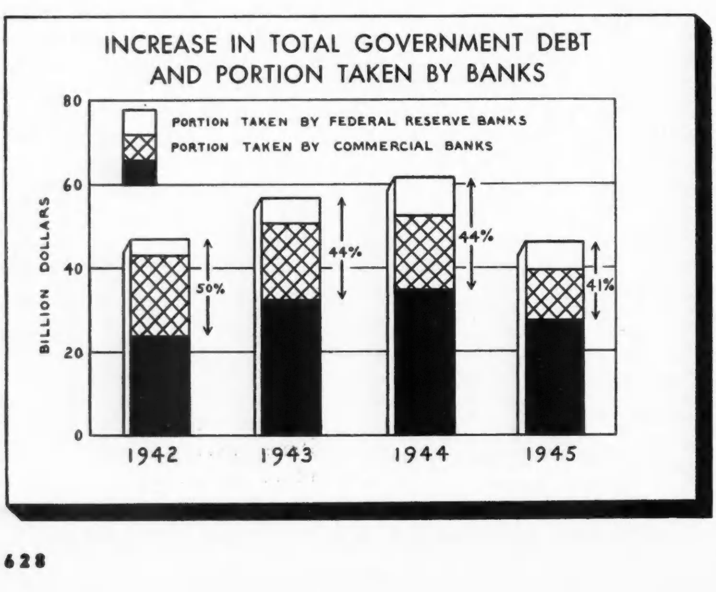
Because these policies are directly related to fiscal problem of managing the national debt of $280 billion, they have recently attracted the attention of Members of Congress, Treasury officials and a growing number of responsible banking officials, including officials of the Federal Reserve Board. Annual reports of the country's leading banking institutions, almost without exception, discussed the problems which have arisen in the wake of declining interest rates, their effects and dangers —for the banks have a big stake in Government obligations.

The banks were the mainstay of the Government's wartime financing program. That was not exactly the way the Treasury planned it, but that is the way it worked out. The Treasury had hoped by the sale of Government securities to individuals, savings banks, insurance companies, corporations and other nonbank investors to siphon off funds and limit the extent of bank credit expansion. But this idea ran afoul of the counter-policy of borrowing money at the lowest possible rate of interest. As a consequence, the first objective was only partially successful, the second one entirely so.

The Treasury made a concerted effort to achieve wide public distribution of its securities but, nevertheless, was compelled to rely heavily upon the commercial and Federal Reserve banks. At the present time commercial banks are holding around $88,000,000,000 in Treasury obligations, or 31.5 per cent of the total national debt, while holdings of Federal Reserve Banks amount to $24,000,000,000, bringing the total proportion of the national debt held by the banking system to some 40 per cent. From these holdings, the banks derive about $900,000,000 annually in interest.

It is estimated that at the present time it costs the Government about $5,000,000,000 annually to service the national debt. Although the Treasury during the war issued long term bonds carrying a coupon rate as high as 2½%, the great bulk of the Government's needs was met through the issuance of short term bills at ⅜ of 1 per cent and certificates at ⅞ of 1 per cent, most of which found their way into bank portfolios. As a result the Government was enabled to finance the war at an average interest rate of only 1.9 per cent!

But this is what happens when a bank instead of an individual purchases a Government bond. The bank simply credits the Government's deposit account with the cost of the bond. The Government draws on this deposit to pay its bills, thus transferring the money to an individual or firm and making it available for private credit inflation. It was this policy which is held largely responsible for the wartime increase of $106,000,000,000 in currency and deposits. It is the potential inflationary dynamite represented by this huge credit base which is causing grave concern on the part of many bankers and economists. Employment of any considerable part of it for the purpose of speculating in securities and real estate could lead to a financial debacle which would overshadow that of the late Twenties.




To remove this danger the Treasury is being urged to revise its debt management policies. Several solutions to the problem have been proffered.

It has been suggested that the Treasury cease or modify its policy of refunding maturing obligations into ⅞% certificates, substituting a long term issue, ineligible for bank purchase and at a rate of interest sufficiently persuasive to attract individual and corporate investors.

Dr. Simeon E. Leland, Chairman of the Federal (*Please turn to page* 674)

# *Evaluating* Financial Positions, Profit Margins and PROSPECTS

... based on latest Balance Sheets and Indicated Earnings

★

By H. S. COFFIN

YEAR-END STATEMENTS now appearing in increasing number are of unusual interest in that they mark the condition of various concerns after final termination of the war. For several years past, the Magazine of Wall Street has analyzed the changing trends disclosed by annual balance sheets and the effects of Government aid to business in achieving the miracle of all-out war production. Now at long last it becomes possible by degrees to visualize more clearly how industry has been strengthened by the ordeal, despite unprecedented handicaps, in scanning peacetime assets and liabilities of leading companies.

It is yet too early to draw broad conclusions, because the bulk of annual reports will not be forthcoming for quite a while to come, but those which have appeared display a uniformity of progress in certain important essentials which is likely to be a pattern for most of the others when they are available. Variations in different segments of industry and in individual company positions naturally are wide, but generally speaking the progressive improvement in financial status and in capital structure is a great tribute to those who planned and implemented our industrial program to give peak strength to our economy in moving forward to meet the challenge of the future.

It is a bit unfortunate that all annual reports do not reveal company positions at the end of the calendar year, a number for good reasons of company policy relating to the status as of the late Fall only, when individual fiscal years terminated. Operations in the final quarter, of course, hinged upon an abrupt reversal of wartime experience, tax adjustments in this particular period assumed major significance, and bookkeeping changes tested auditing ingenuity. While for these reasons, December 31, 1945 reports are somewhat more interesting, those compiled a few months sooner carry a lot of weight in rounding out the general picture at the war's end.

Especially impressive in studying the 1945 company figures is the continued uptrend in working capital, debt retirement and refunding of senior obligations at record low rates. A general decline in total assets merely marks the contraction of business due to diminishing military production, a factor more than offset by rapid settlement of Government contracts, which in turn permitted liquidation of both loans and inventories on a broad scale, at least where output for war had been involved. With advances of cash by the Government no longer needed, and the necessity for huge V Loan credits rapidly fading, the trend toward shrinking assets and liabilities is a wholesome one, and for the most part has decidedly improved the relationship of current assets to current liabilities.

In cases where concerns in wartime were more or less able to concentrate production upon normal peacetime lines, assets have tended to swell by the retention of earnings in the business, along with corresponding improvement in working capital positions. And regardless of the character of production, expansion policies of many a concern have led to acquisition of other concerns or construction of new facilities at an increased tempo during the past year. Financial steps taken to implement these programs have involved the issuance of new capital

### DEVOE & RAYNOLDS

| ASSETS | Nov. 30 1944 | Nov. 30 1945 | Change |
|---|---|---|---|
| | ($ Millions) | | |
| Cash | 2,928 | 6,170 | +3,242 |
| U. S. securities | 781 | 443 | — 338 |
| Receivables less res. | 2,012 | 2,423 | + 411 |
| Inventories | 4,577 | 4,934 | + 357 |
| TOTAL CURRENT ASSETS | 10,298 | 13,970 | +3,672 |
| Net fixed assets | 2,243 | 3,337 | +1,094 |
| Other assets | 404 | 409 | + 5 |
| TOTAL ASSETS | 12,945 | 17,716 | +4,771 |
| **LIABILITIES** | | | |
| Accounts payable | 832 | 1,056 | + 224 |
| Accruals | 566 | 1,029 | + 463 |
| Reserve for taxes | 566 | 1,578 | +1,012 |
| TOTAL CURRENT LIAB. | 1,964 | 3,663 | +1,699 |
| Reserves | 19 | 42 | + 23 |
| Capital | 7,806 | 11,073 | +3,267 |
| Surplus | 3,225 | 2,939 | — 286 |
| TOTAL LIABILITIES | 12,945 | 17,716 | +4,771 |
| WORKING CAPITAL | 8,334 | 10,306 | +1,972 |
| Current Ratio | 5.1 | 3.8 | — 1.3 |

### R. J. REYNOLDS TOBACCO CO.

| ASSETS | Dec. 31 1944 | Dec. 31 1945 | Change |
|---|---|---|---|
| | ($ Millions) | | |
| Cash | 10,742 | 14,400 | + 3,658 |
| Postwar credit | 0 | 2,294 | + 2,294 |
| Accounts receivable | 19,075 | 14,795 | — 4,280 |
| Inventories | 208,436 | 265,022 | +56,586 |
| TOTAL CURRENT ASSETS | 238,254 | 296,510 | +58,256 |
| Plant and equipment | 31,938 | 31,923 | — 15 |
| Less depreciation | 16,061 | 16,446 | + 385 |
| Net plant | 15,871 | 15,477 | — 394 |
| Other assets | 5,618 | 3,240 | — 2,378 |
| TOTAL ASSETS | 259,734 | 315,227 | +55,493 |
| **LIABILITIES** | | | |
| Notes and accts. payable | 71,426 | 79,536 | + 8,110 |
| Reserve for taxes | 16,169 | 16,779 | + 610 |
| Accruals, etc. | 2,427 | 500 | — 1,927 |
| TOTAL CURRENT LIAB. | 90,022 | 96,815 | + 6,793 |
| Capital | 100,000 | 149,000 | +49,000 |
| Serial notes | 8,000 | 6,000 | — 2,000 |
| Surplus | 61,712 | 63,413 | + 1,701 |
| TOTAL LIABILITIES | 259,734 | 315,227 | +55,493 |
| WORKING CAPITAL | 148,232 | 455,493 | +55,493 |
| Current Ratio | 2.6 | 3.1 | + 0.5 |

### OLIVER CORP.

| ASSETS | Oct. 31 1944 | Oct. 31 1945 | Change |
|---|---|---|---|
| | ($ Millions) | | |
| Cash | 13,555 | 6,576 | —6,979 |
| U. S. and Canadian Govt. bonds | 5,481 | 7,612 | +2,231 |
| Receivables | 4,955 | 5,689 | + 734 |
| Inventories, less reserve | 18,168 | 17,701 | — 467 |
| TOTAL CURRENT ASSETS | 42,160 | 37,578 | —4,582 |
| Plant | 20,318 | 23,463 | +3,145 |
| Less depreciation | 12,630 | 14,919 | +2,289 |
| Net plant | 7,688 | 8,545 | + 857 |
| Other assets | 1,066 | 388 | — 678 |
| TOTAL ASSETS | 50,914 | 46,511 | —4,403 |
| **LIABILITIES** | | | |
| Accounts payable | 4,844 | 4,785 | — 60 |
| Res. for taxes | 4,328 | 1,612 | —2,716 |
| Res. for Renegotiation | 2,539 | ........ | —2,539 |
| TOTAL CURRENT LIAB. | 11,711 | 6,798 | —4,913 |
| Reserves | 2,700 | 2,700 | 0 |
| Capital | 25,603 | 25,607 | + 4 |
| Surplus | 11,323 | 11,828 | + 505 |
| TOTAL LIABILITIES | 50,914 | 46,511 | —4,403 |
| WORKING CAPITAL | 30,449 | 30,780 | + 331 |
| Current Ratio | 3.6 | 5.5 | + 1.9 |

### F. W. WOOLWORTH CO.

| ASSETS | Dec. 31 1944 | Dec. 31 1945 | Change |
|---|---|---|---|
| | ($ Millions) | | |
| Cash | 55,195 | 53,694 | — 1,501 |
| Government bonds | 28,925 | 45,091 | +16,166 |
| Receivables | 1,169 | 2,654 | + 1,485 |
| Inventory | 48,752 | 51,461 | + 2,709 |
| TOTAL CURRENT ASSETS | 135,047 | 152,900 | +17,859 |
| Investments | 32,058 | 32,044 | — 14 |
| Property and leaseholds, net | 113,423 | 108,184 | — 5,239 |
| Other assets | 6,031 | 3,612 | — 2,419 |
| TOTAL ASSETS | 286,553 | 296,740 | +10,187 |
| **LIABILITIES** | | | |
| Accounts payable | 15,475 | 15,375 | — 100 |
| U. S. & Canadian taxes | 29,880 | 31,820 | + 1,940 |
| TOTAL CURRENT LIAB. | 45,355 | 47,426 | + 2,071 |
| Capital | 119,445 | 119,499 | + 54 |
| Surplus | 121,622 | 129,684 | + 8,062 |
| TOTAL LIABILITIES | 286,553 | 296,740 | +10,187 |
| WORKING CAPITAL | 89,686 | 105,474 | +15,788 |
| Current Ratio | 3.0 | 3.3 | + 0.3 |

stock or borrowings in numerous instances, thus raising totals in the latest balance sheets. The encouraging aspect of all major trends now coming to light is evidence that industry no longer needs to lean upon Government aids to support its peacetime progress and expansion, at least from the angle of available capital resources, for the new balance sheets amply confirm its ability to carry along unassisted.

With this much said for broad generalities, highlighting some of the individual reports of concerns in different industries may serve to clarify the picture. Suppose we begin with United States Rubber Company, for the impact of sudden peacetime conditions brought many problems to the door of this important military producer. The December 31, 1945 balance sheet shows total assets of some $226 million, a decline of about $13 million compared with the previous year, although additions during the year to plant and property amounted to $26.6 million. But accounting in large measure for the asset decline were deductions of $10.9 million for depreciation and a write-off of unamortized war facilities of $26.4 million, bringing net book valuations of fixed assets originally costing over $203 million down progressively to a highly conservative level of $52.3 million. Current assets during the last year rose by over $10 million despite a decline in current liabilities of $6 million, aided by a refund of $2.4 million from post-war tax bonds. While inventories rose sharply, final settlement of $7.4 million Government contracts should offset the rise. By redemption of funded debt in 1944, interest savings of above $530,000 were achieved, and tax declines amounted to $16 million because of reduced taxable income occasioned by accelerated amortization. As a result of all these changes, final net earnings declined by $2.8 million technically, although the company rationally could have shown a substantial gain. From the financial aspect, the company's position is the best in its history.

In contrast to the above, the balance sheet of F. W. Woolworth Co., dime store operators, reflects the progress of a large concern enjoying wholly

### AMERICAN CAN CO.

| | Dec. 31 1944 | Dec. 31 1945 | Change |
|---|---|---|---|
| **ASSETS** | ($ Millions) | | |
| Cash | 23,821 | 19,299 | — 4,522 |
| U. S. and Canadian sec. | 10,492 | 20,373 | + 9,881 |
| Accounts receivable | 16,795 | 14,332 | — 2,463 |
| Inventories | 60,997 | 56,743 | — 4,254 |
| Recoverable expenditures | 15,033 | 5,463 | — 9,570 |
| TOTAL CURRENT ASSETS | 127,139 | 116,210 | —10,929 |
| Plant and equipment, net | 109,768 | 111,279 | + 1,511 |
| Other assets | 4,146 | 4,327 | + 181 |
| TOTAL ASSETS | 241,053 | 231,816 | — 9,237 |
| **LIABILITIES** | | | |
| Accounts payable | 19,219 | 18,377 | — 842 |
| Accrued taxes | 11,980 | 9,864 | — 2,116 |
| Advances and accruals | 17,611 | 8,040 | — 9,571 |
| TOTAL CURRENT LIAB. | 48,810 | 36,282 | —12,528 |
| Reserves | 8,042 | 8,301 | + 259 |
| Capital | 113,083 | 113,083 | 0 |
| Surplus | 71,117 | 74,150 | + 2,933 |
| TOTAL LIABILITIES | 241,053 | 231,816 | — 9,237 |
| WORKING CAPITAL | 78,321 | 79,928 | + 1,607 |
| Current ratio | 2.6 | 3.2 | + 0.6 |

peace-time business. Current assets rose by $17.9 million during 1945, with increased holdings of Government securities largely accounting for the gain. Current liabilities rose merely by $2.1 million, just about offset by a similar small rise in inventories. The year end current ratio advanced slightly to reach 3 to 1 compared with just under 3 to 1 in 1944. Cash alone exceeded all current liabilities, including reserves for taxes, by over $6 million. As volume of this concern in 1946 is likely to trend upward, relief from $18.9 million EPT taxes paid in 1945 should swell earnings substantially above the final net of $23.5 million net reported for last year. All other factors being the same, a net gain of about $12 million could be possible, but rising wage costs are likely to take their toll.

Year-end figures of 192 year old Devoe & Raynolds Co. disclose consistent improvement in the financial status of this major unit in the paint industry. 1945 sales were the largest in the company's history, showing an increase of 16% over the previous year, without including volume from two new subsidiaries acquired during the past twelve months. To finance these additions, the company sold 40,437 shares of Class A stock, also issuing $3.5 million 2⅞% debentures to retire outstanding 5% preferred stock and a small amount of mortgage bonds. Total assets accordingly leaped to $17.7 million from $12.9 million reported in 1944 and current liabilities rose by $1.7 million. Working capital, however, gained by $1.9 million to reach peak proportions. While pre-tax earnings nearly doubled compared with the previous year, EPT held the net gain to 24%. The company clearly is in sound shape to carry out further plans for expansion and diversification, along lines already carefully planned.

Among producers of metal containers, American Can Co. ranks as the leader. Thus its annual balance sheet becomes unusually interesting. While current assets shrank by some $11 million during 1945, a corresponding reduction in current liabilities followed, leaving (*Please turn to page* 669)

### U. S. RUBBER CO.

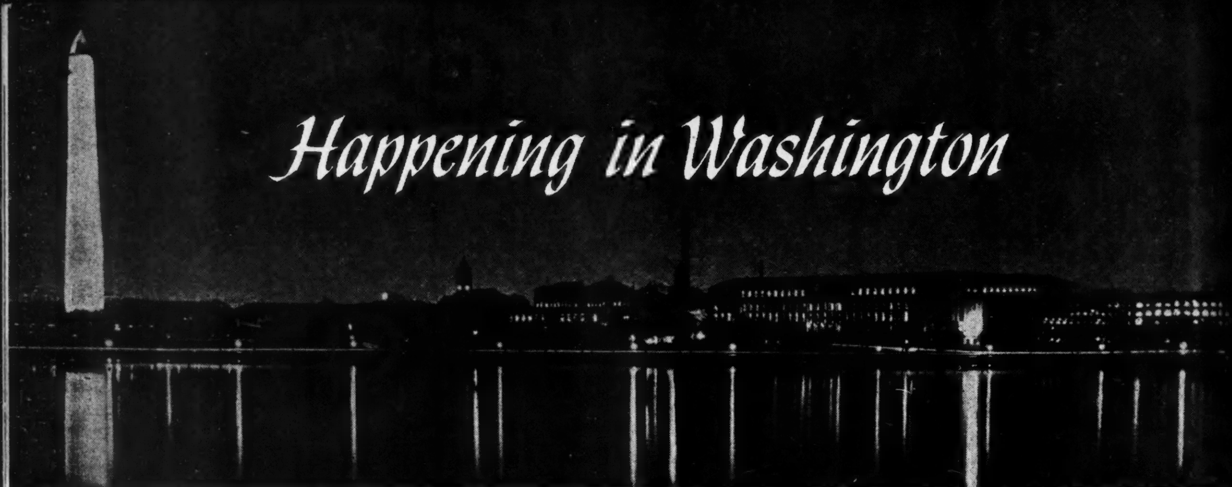
| | Dec. 31 1944 | Dec. 31 1945 | Change |
|---|---|---|---|
| **ASSETS** | ($ Millions) | | |
| Cash | 22,480 | 31,224 | + 8,744 |
| U. S. obligations | 5,000 | 5,000 | 0 |
| Postwar refund | 0 | 2,407 | + 2,407 |
| Receivables, net | 52,566 | 44,464 | — 8,102 |
| Inventories | 75,425 | 84,449 | + 9,024 |
| TOTAL CURRENT ASSETS | 157,209 | 167,568 | +10,359 |
| Plant and equipment | 186,349 | 210,081 | +24,732 |
| Less depreciation | 122,641 | 157,734 | +35,093 |
| Net plant | 63,708 | 52,347 | —11,361 |
| Other assets | 18,964 | 6,306 | —12,658 |
| TOTAL ASSETS | 239,881 | 226,221 | —13,660 |
| **LIABILITIES** | | | |
| Accounts payable | 20,725 | 24,828 | + 4,103 |
| Notes payable | 3,000 | 3,000 | 0 |
| Accrued taxes | 24,526 | 15,894 | — 8,532 |
| Other accruals | 15,226 | 13,774 | — 1,452 |
| TOTAL CURRENT LIAB. | 63,477 | 57,497 | — 5,980 |
| Reserves | 8,791 | 7,351 | — 1,440 |
| Advances | 10,788 | 2,653 | — 8,137 |
| Capital | 109,700 | 106,700 | — 3,000 |
| Surplus | 46,720 | 51,618 | + 4,898 |
| TOTAL LIABILITIES | 239,881 | 226,221 | —13,660 |
| WORKING CAPITAL | 93,732 | 110,071 | +16,339 |
| Current Ratio | 2.0 | 2.9 | + .9 |

### ENDICOTT JOHNSON CORP.

| | Nov. 30 1944 | Nov. 30 1945 | Change |
|---|---|---|---|
| **ASSETS** | ($ Million) | | |
| Cash | 13,613 | 15,547 | +1,934 |
| U. S. obligations | 1,800 | 1,600 | — 200 |
| Receivables, net | 7,460 | 7,369 | — 91 |
| Inventories, net | 19,834 | 21,338 | +1,504 |
| TOTAL CURRENT ASSETS | 43,002 | 46,628 | +3,626 |
| Plant and equipment | 22,465 | 23,131 | + 666 |
| Less depreciation | 13,183 | 13,652 | + 469 |
| Net plant | 9,282 | 9,479 | + 197 |
| Other assets | 2,000 | 2,030 | + 30 |
| TOTAL ASSETS | 54,293 | 57,414 | +3,121 |
| **LIABILITIES** | | | |
| Notes payable | .......... | 431 | + 431 |
| Accts. pay. and accruals | 3,825 | 5,155 | +1,330 |
| Reserve for taxes | 6,086 | 6,064 | — 22 |
| TOTAL CURRENT LIAB. | 9,911 | 11,652 | +1,741 |
| Reserves | 5,469 | 6,665 | +2,196 |
| Capital | 27,606 | 27,506 | — 100 |
| Surplus | 10,573 | 11,591 | +1,028 |
| TOTAL LIABILITIES | 54,293 | 57,414 | +3,121 |
| WORKING CAPITAL | 33,091 | 35,976 | +2,885 |
| Current Ratio | 4.34 | 4.0 | — .34 |

### DRESSER INDUSTRIES, INC.

| | Oct. 31 1944 | Oct. 31 1945 | Change |
|---|---|---|---|
| **ASSETS** | ($ Millions) | | |
| Cash | 8,806 | 8,474 | — 312 |
| U. S. notes | 231 | 1,170 | + 939 |
| Receivables | 4,992 | 6,585 | + 1,593 |
| Inventories | 8,633 | 12,745 | + 4,112 |
| Claims and postwar refund | 881 | 5,458 | + 4,577 |
| TOTAL CURRENT ASSETS | 23,544 | 34,432 | +10,788 |
| Property and plant | 9,498 | 15,238 | + 5,740 |
| Less depreciation | 5,366 | 7,927 | + 2,561 |
| Net plant | 4,132 | 7,311 | + 3,179 |
| Other assets | 963 | 1,224 | + 261 |
| TOTAL ASSETS | 28,639 | 42,967 | +14,328 |
| **LIABILITIES** | | | |
| Accounts payable | 4,017 | 4,752 | + 735 |
| Notes payable | 9,500 | 6,528 | — 2,972 |
| Accruals, etc. | 1,461 | 2,415 | + 954 |
| Taxes | 2,120 | 3,515 | + 1,395 |
| TOTAL CURRENT LIAB. | 17,098 | 17,210 | + 112 |
| Capital | 650 | 6,530 | + 5,880 |
| Surplus | 10,891 | 18,446 | + 7,525 |
| TOTAL LIABILITIES | 28,639 | 42,967 | +14,320 |
| WORKING CAPITAL | 6,446 | 17,223 | +10,777 |
| Current Ratio | 1.4 | 2.0 | + 0.6 |



# Happening in Washington

Photo by Cushing

By E. K. T.

**NEVER SUBTLE** in its political performances, American Federation of Labor is giving indication that Capt. Harold E. Stassen, the former Minnesota governor, currently is the favored aspirant to the Presidency. American Federationist, official magazine of AFL of which William Green is editor—nominally at least—permits Stassen to write its lead editorial this month. "Atoms and Us," a discussion of A-energy is the subject. It has nothing to do with labor issues, naturally, but the fact that the Federation gives a Presidential hopeful its favorite sounding board must be regarded as significant.

**REVENUE BUREAU** is swamped with applications for refunds under the Tax Adjustment Act and is without the personnel to make final accountings in time to comply with the mandate of the law that payments must be made within 90 days of the time of filing. As a result it has been decided to make refunds now, and post-audit, raising the likelihood that some companies will receive demands later to return part of the money to the Treasury Department. Claims on hand already have exceeded the 400 million dollar-mark.

**INSURANCE COMPANIES** which participated in the War Risk Insurance Program of the War Damage Corporation may receive a share of the profits realized, but the odds are against it. President disposition of WDC and of Congress is to turn the gains into the Treasury. The corporation took in a total of 240 million dollars in premiums. Expenses, including overhead and other costs, ran only 22 million dollars, leaving a profit of 218 million dollars on the operation. Several bills have been introduced to force return of part of the premiums paid but WDC adamantly refused and there seems to be no concerted move on Capitol Hill to insist.

**BROADENING** of the Social Security Act base isn't in the cards for this year. If every member of Congress who has introduced a bill or an amendment on the subject were to vote for a more expansive statute, its passage would be assured. But there is little uniformity and no united effort. More immediate problems will engage the attention of the lawmakers for the next few months and they'll go back into the precincts to launch campaigns for re-election before tackling social legislation. Some start will be made on the Wagner health bill but the medical lobby is getting in some effective work. Also the prospect of a new and larger payroll tax to support the system has cooled off rank-and-file interest.

### WASHINGTON SEES

The idea of "bulge costs" or increased operatng costs which, theoretically, can be borne by industry without affecting profit position, evidently will be carried into the Office of Economic Stabilization by Chester Bowles — the author of that expression and principle during his OPA days.

The new wage-price formula belatedly announced by the White House will give Bowles powers the extent of which will not be fully realized until regulations come along. That will be soon. In essence, they will provide that wages must rise first, after which OPA will consider the price situation. Unlike in the steel industry, they will not come simultaneously.

There will be one important exception. Bowles will specify wage increase "patterns" which he feels already are established in particular areas, or industries. He then will declare that all grants of higher wages falling within those patterns may be taken to OPA and adjustments will be made to conform.

The new economic stabilizer is armed with federally-collected statistics which indicate that 1946 will be an exceptionally good year for business—strikes, work stoppages and other factors notwithstanding. Proceeding from that premise, Bowles intends to put employer corporations on the defensive. Special situations within a given field will not be evaluated if the overall "industry position" is favorable for 1946.

# AS WE GO TO PRESS

Beginning with the little-disrupted premise that the Truman Administration has plummeted in public estimation, a variety of reasons for the rapid decline suggest themselves. No single weakness can be ascribed. Blame cannot be assessed, for the reason that some of the causes were beyond human control. Here's Washington reaction:

Agreement is general that the President erred, tactically at least, by surrounding himself with old cronies. A man who had travelled little except between Missouri and Washington since World War 1 days, he naturally centered his friendship in a very limited area. And, like his predecessor, he lacks the faculty for discharging an official once he has been placed.

Humorous remarks can be more devastating than logic, at times, in the game of politics. With each new appointment of a man of relatively unknown background, the popular question in Washington has been: What Missouri city does he come from? In too many cases, the answer supported the question's implication.

In addition to lack of geographical distribution, Mr. Truman made appointive mistakes on other grounds. Snyder was one, Vardaman another; but Pauley was the classic example. Allen made the grade but he added nothing, in public estimation, to the stature of the federal family.

The President not only seems unable to attract outstanding public leaders to Washington service, but also he lost some of the towers of strength which supported FDR. Departure of Leo T. Crowley lost to him a steadying influence of broad experience who "had a way" with Congress. No one has taken his place.

President Truman has displayed an unfortunate knack for creating confusion in his official family which the public was quick to appraise as lack of efficient organization. He appointed Lewis B. Schwellenbach as Secretary of Labor and almost simultaneously placed Dr. John Steelman in the White House as advisor on labor matters, shortcircuiting Schwellenbach.

In the spot where absolute confidence had to be reposed to convince the world this country means business, he placed James F. Byrnes — then told the world the President isn't called upon to support the State Department, but the reverse is true.

He placed John Snyder in the post of reconversion director, then by-passed him to take top advice on that subject from Treasury-Secretary Fred Vinson, later from Chester Bowles.

Mr. Truman's break with Congress will be required reading for future students of political science. No one ever went into the White House with a better outlook for amity there. The first chink appeared when the President abandoned the custom of consulting his Congressional party leaders on nominations requiring confirmation, the chasm appeared when he publicly lashed the lawmakers for failing to adopt his entire legislative program.

FDR was not the inventor of the label "must" legislation but he was the first to use it with open regularity. It worked for him, partly because of the urgencies of depression, recession, preparedness and war. Mr. Truman tried the same tactic against a different background and the reaction was bad.

Gauged only by its political results and without consideration of its legislative rightness, the FEPC campaign from the White House had elements of the fatal. FDR went on record for the bill, let it go at that. Mr. Truman alienated the South, source of his party's greatest strength, by his persistence.

Unlike his predecessor who kept Congress members guessing as to his political future, thereby insuring a following of "coat-tail riders," Mr. Truman has let it be known he didn't care for the Presidency, doesn't care for it now, and, by implication at least, will care less about in 1948.

The more skillful politicians attached to the Administration see the danger in this, but the President obviously does not. Chairman Robert E. Hannegan has tried to keep his Chief in line but without success. As a result, Hannegan is getting farther away from the Executive Mansion inner circle.

The President's right to lead his own social life is unquestioned but public reaction can be bad. Mr. Truman likes companionship; can't stand the seclusion of the Executive Mansion grounds. As a Senator he could come and go as he pleased, without publicity. Today, a much lesser social existence is so widely publicized as to give impression he doesn't take the pressing problems of state seriously enough.

Whether his insistence on mingling with the people is winning favor with the rank and file or having a contrary result is something for which no measuring stick is at hand. Hannegan, among others, appear to think "distance lends enchantment."

Beyond his control is the fact that he happens to be in the White House following a victorious war and the history of the Democratic party following World War 1 could repeat. The party of Woodrow Wilson had the experience and it doubtless would have been fatal to political success even if Wilson had retained all of his physical vigor.

Strikes, apparent slowness in moving into reconversion and re-employment, veteran dissatisfaction and numerous other developments are ills which cannot be fully attributed to Mr. Truman but, nevertheless he is receiving the lion's share of the blame for not having the machinery set up and working.

From a labor union spokesman: "Indecision on the part of Truman, plus a reach for political rather than practical solutions, is causing his downfall. The country is crying for action — correct action if possible, but in any event action. And Truman is throwing the problems to inexperienced men, politicians.

"He'll have to make up his mind if the Administration is to avoid dipping further. Just look at the message on the State of the Union! He was for everything and against nothing; but he isn't doing anything for anything!"

From a food trade association representative: "Brown bread! Humphh! It doesn't mean a thing, but it's the typical dodge. UNRRA is wrong legislatively and administratively, but instead of going to the roots and curing them, the President goes into dramatics. From the looks of things, the third-string team is advising him."

By resigning, Ickes saved the President from the possibility of committing grave error by firing him. The inner circle had the hatchet out for "Honest Harold," and the Cabinet member just didn't think it worth the fight.

Suggested here is the possibility that Ickes warning against alliances with political "angels" might send the Administration on a new tack. It was blunt and documented by historical happening. Time alone will tell.

Export-Import bank will play prominent role in facilitating foreign trade.

*Photo by Ewing Galloway*

# *Functions of the* Export-Import Bank

**— The Spur to Exports through Guaranteed Loans**

By V. L. HOROTH

In the issue of February 2nd, there appeared a general discussion of the organization of the International Bank for Reconstruction and Development and the role that it is likely to play in the postwar transition and rehabilitation. It was indicated that the International Bank might begin operations late in 1946 and that its lending capacity would be between $7.5 and $9 billion, with the bulk of the loans probably raised in the United States private capital market. In the present discussion, the intention is to take up the functions of the Export-Import Bank and its role in the promotion of our trade and in the restoration and further development of foreign countries.

The Export-Import Bank's importance and the scope of its activity were greatly enhanced by the Export-Import Bank Act of 1945, passed last July, which set it up as a permanent, independent U. S. Government agency and which raised its lending and guaranteeing powers from $700 million to $3,500 million (see note). Since then, as will be seen from the table accompanying this article, the Bank has lent over $1,100 million, about one-third of which were the so-called "reconstruction loans" in which the International Bank is expected to specialize. The Bank's commitments as of the middle of February 1946 were estimated to exceed $1,850 million (including the loans approved but not signed, such as the loan of $100 million to the Netherlands East Indies, or the $16 million loan to the Yungli Chemical Corporation in China), so that its lending and guaranteeing capacity has been reduced to about $1,650 million.

Note: Actually the Bank can handle a larger amount of business than $3,500 million because of (1) participations by private banks with the Export-Import Bank without its guaranty, (2) sales by the Bank to private persons of paper from its portfolio without its endorsement or guaranty, and (3) the release of funds through repayments.

### More Loans in the Making

Despite these huge commitments already made, newspapers almost daily carry reports of more loans being negotiated or of more countries approaching the Bank for reconstruction credits: the Netherlands is supposedly seeking additional $200 million, the Czechs also about $200 million, while the Poles would like to have at least $500 million and the Italians have formally requested $940 million. The French, who are sending a delegation here, are reported to be asking from $2 to $3 billion. There are reports of China's needing soon $700 million and, of course, the minimum loan to Russia, of which little recently has been heard, would be at least $1 billion. No wonder that various Washington news services talk of the possibility of the Export-Import Bank's lending and guaranteeing powers being raised to $8 and even $10 billion—which would make the Bank as important an instrument of international lending as the International Bank itself, possibly even more important. Naturally there is a good deal of interest in all this, not only among the traders and investors, but also among the economists and financiers. The question is whether the Export-Import Bank is intended to supplement or to duplicate the Bretton Woods program; the latter development could materially contribute to the bidding for the purchase of commodities and equipment in

| EXPORT-IMPORT BANK | | LOANS MADE DURING 1945 and 1946 | |
|---|---|---|---|
| Borrower | Authorized | Amount | Purpose (Commodity) |
| Lend-Lease Settlement (Take-Out) Loans — 30 year loans bearing 2⅜% interest, made under the provisions of the "3C" lend-lease agreement. | | | |
| Netherlands | Oct. 1945 | $50,000,000 | Payment for lend-lease goods, re- |
| France | Dec. 1945 | 550,000,000 | quisitioned, but not contracted for prior |
| Belgium | Dec. 1945 | 55,000,000 | to VJ-day |
| Total | | 655,000,000 | |
| Reconstruction Loans (Most of these are 5-20 year serial loans bearing average 3% interest. | | | |
| Denmark | Aug. 1945 | 20,000,000 | Payment for machinery, goods, raw |
| Norway | Sept. 1945 | 50,000,000 | materials, etc., Purchased through pri- |
| Netherlands | Nov. 1945 | 50,000,000 | vate channels. |
| Belgium | Dec. 1945 | 45,000,000 | |
| Dutch East Indies | (a) | 100,000 | |
| Greece (b) | Jan. 1946 | 25,000,000 | |
| Finland | Feb. 1946 | 35,000,000 | |
| Total | | 325,000,000 | |
| Transportation Equipment Loans (4% except the Paulista Railway loan which bears 4½% interest) | | | |
| Brazil | | | |
| Vale do Rio Dore | Jan. 1945 | 5,000,000 | Railway equipment |
| Central Railway | Feb. 1945 | 4,500,000 | Electrical " |
| Paulista Railway | Apr. 1945 | 2,500,000 | Rolling stock (Pullman Exp. Co.) |
| Lloyd Brazileiro | Sept. 1945 | 38,000,000 | Cargo steamers |
| Chile | | | |
| Chilean State RR. | July 1945 | 1,200,000 | Locomotives (Baldwin) |
| Chilean " " | July 1945 | 2,000,000 | Electrical equipment |
| Colombia | | | |
| Colombian RR. | Dec. 1945 | 203,000 | Locomotives (Baldwin) |
| Mexico | | | |
| Mex. Nat. RR. | Mar. 1945 | 15,000,000 | Railway equipment |
| Turkey | | | |
| State Airway | Jan. 1946 | 3,060,000 | Airplane engines |
| TACA (Airways Ag.) | Mar. 1945 | 1,000,000 | Airplane engines |
| Panair | May 1945 | 25,000,000 | Equipment, services |
| Total | | 97,463,000 | |
| Road Building and Public Works Loans (4%) | | | |
| Ecuador | Jan. 1946 | 780,000 | Pan-American Highway |
| Industrial Development Loans (4%) | | | |
| Chile | | | |
| Fomento Corp. | Sept. 1945 | 28,000,000 | Steel mill equipment |
| Fomento Corp. | Sept. 1945 | 5,000,000 | Electrical equipment |
| Mexico | | | |
| Cia. Fundadora | May 1945 | 800,000 | Steel mill equipment |
| Nacional Financiera | Dec. 1945 | 20,000,000 | Electrical equipment |
| Peru | | | |
| Co. Peruana d.Santa | June 1945 | 350,000 | " " |
| China (c) | | | |
| Yungli Chemical | Mar. 1945 | 16,000,000 | Machinery, equipment |
| Total | | 70,150,000 | |
| Loans to Int. Tel. & Tel. Co. (4%) | | | |
| Int. Stand. Elec. Co. | Sept. 1945 | 5,000,000 | Communication equipment |
| Commodity Loan (Made out of general credit of $100,000,000 established last October; however, the loan to China made outside the general credit. Interest rate charged: 2½%) | | | |
| Finland | Dec. 1945 | $5,000,000 | 46,000 bales of cotton |
| China | Jan. 1946 | 33,000,000 | 275-300,000 bales of cotton |
| Total | | 38,000,000 | |
| All Other Loans (4%) | | | |
| Haiti | | | |
| Dauphin Plantation | May 1945 | 100,000 | Equipment, supplies |
| Ecuador | | | |
| Tctal | July 1945 | 1,000,000 | Goods and services |
| Grand Total | | 1,100,000 | |
| | | $1,192,493,000 | |

(a) Dutch East Indies Loan was approved by the Export-Import Bank, but the Netherlands Government has not signed it as yet. (b) Serial 5 to 30-year loan. (c) Yungli Chemical Corp. loans was approved on the condition that the Bank of China would guarantee it; no guarantee has been extended as yet.

Note; In addition to credits and loans made by the Export-Import Bank, foreign loans made in this country in 1945 and 1946 included: two lend-lease settlement loans aggregating about $730 million (pipeline loans) made from the funds appropriated for lend-lease; two credits aggregating $116 million (the Dutch and Norwegian) opened by private banking groups; the $4,400 million loan to Great Britain is still awaiting approval by Congress.

short supply and, therefore, to inflation.

Originally, when it was organized in 1934, the Export-Import Bank was intended to help to stimulate the recovery of American foreign trade from the low levels of the depression years. This it proposed to do by assuming a part of the increased risks which faced the exporter and the importer as well as bankers and acceptance houses as a consequence of increased political and financial (foreign exchange) instability in some of the countries. It also proposed to enlarge trade relations between the United States and foreign countries by arranging longer credits and by participating in productive undertakings. Mr. Wayne Chatfield Taylor, the President of the Bank, when testifying before the House Committee on Banking and Currency last July, identified the various types of the Export-Import Bank transactions as falling into the following groups:

(1) Extension of relatively short-term credit to all exporters with the intention of assisting them in the sale of various products. Cotton spinners in some countries, such as Poland, found it impossible to obtain exchange within the time customarily allowed under letters of credits. Upon the responsibility of the Export-Import Bank, however, commercial banks were enabled to increase the period of such letters of credit from 90 days to three months and even one year. These transactions made possible increased exports of cotton, tobacco, and other agricultural products.

(2) Extension of credit to the manufacturers of capital goods, such as locomotives and railway equipment and heavy machinery, in order to enable them to meet the foreign competition. In such cases the Bank would agree to purchase from such manufacturers long-term notes of foreign railways or of foreign governments and carry

(Turn to page 668)

Crosley Radio

# 1946 Special Re-appraisals of Values, Earning and Dividend Forecasts

**Prospects and Ratings for Oil, Steel, Radio, Rubber and Specialty Stocks.**

**Part III**

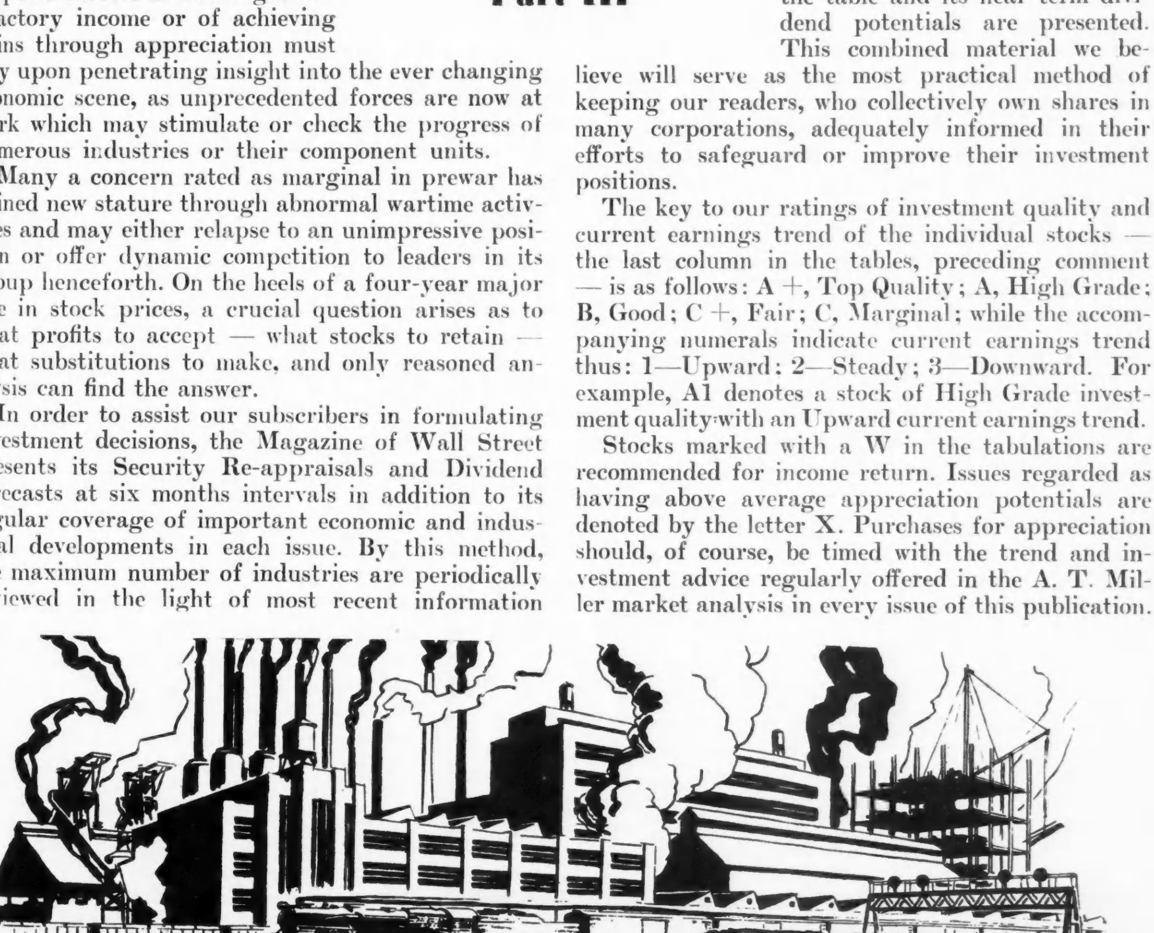
AS THE nation emerges from abnormal war conditions to an era of peace, thoughtful investors sense the necessity of scanning portfolios with critical eyes. Hope of success in securing a satisfactory income or of achieving gains through appreciation must rely upon penetrating insight into the ever changing economic scene, as unprecedented forces are now at work which may stimulate or check the progress of numerous industries or their component units.

Many a concern rated as marginal in prewar has gained new stature through abnormal wartime activities and may either relapse to an unimpressive position or offer dynamic competition to leaders in its group henceforth. On the heels of a four-year major rise in stock prices, a crucial question arises as to what profits to accept — what stocks to retain — what substitutions to make, and only reasoned analysis can find the answer.

In order to assist our subscribers in formulating investment decisions, the Magazine of Wall Street presents its Security Re-appraisals and Dividend forecasts at six months intervals in addition to its regular coverage of important economic and industrial developments in each issue. By this method, the maximum number of industries are periodically reviewed in the light of most recent information available with up-to-date statistical data provided for ready comparisons. Supplementing this, brief comments on the status of each individual company listed on the table and its near term dividend potentials are presented. This combined material we believe will serve as the most practical method of keeping our readers, who collectively own shares in many corporations, adequately informed in their efforts to safeguard or improve their investment positions.

The key to our ratings of investment quality and current earnings trend of the individual stocks — the last column in the tables, preceding comment — is as follows: A +, Top Quality; A, High Grade; B, Good; C +, Fair; C, Marginal; while the accompanying numerals indicate current earnings trend thus: 1—Upward; 2—Steady; 3—Downward. For example, A1 denotes a stock of High Grade investment quality with an Upward current earnings trend.

Stocks marked with a W in the tabulations are recommended for income return. Issues regarded as having above average appreciation potentials are denoted by the letter X. Purchases for appreciation should, of course, be timed with the trend and investment advice regularly offered in the A. T. Miller market analysis in every issue of this publication.



# *Changing* OIL PICTURE

☆ ☆ ☆

By H. M. TREMAINE

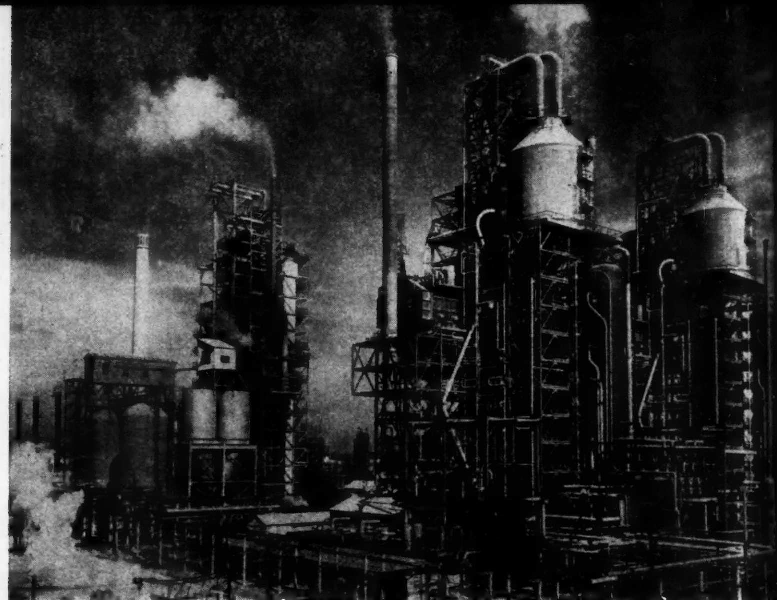


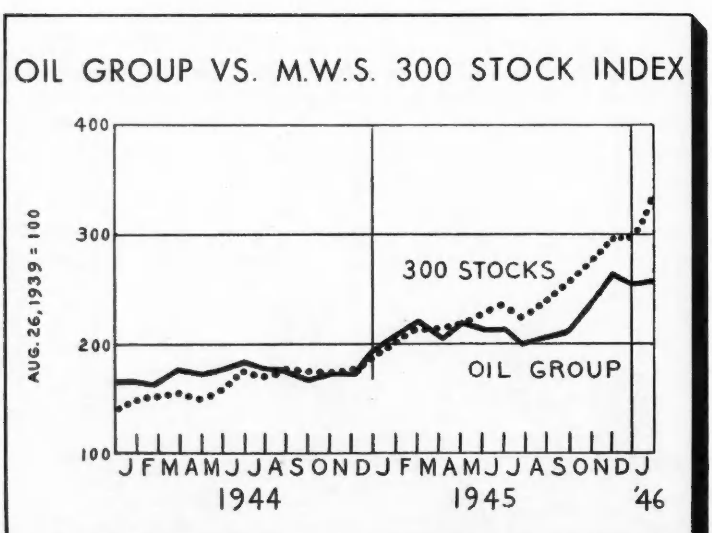
*Photo by INP*

**Supplies of refined petroleum products will exceed demand temporarily.**

Near term earnings potentials of the oil industry—indeed for the entire current year—are considerably obscured by the transitional flux in which it finds itself. While the termination of rationing after VJ Day immediately opened up civilian markets hungry for petroleum products as a substantial offset to declining military demand, considerable time will elapse before production schedules can be brought into desirable balance from the profit angle. So bright, however, are longer range prospects for growth in volume and earnings that the present position of the industry and its major components should be a special interest to investors.

According to the Petroleum Industry War Council, total demand for products of all kinds in the category of oil should average about 4.7 million barrels per day in 1946, or about 650,000 barrels per day above the relative showing in the 1939-41 period. Both domestic and export demand figure in these estimates and probably little or no allowance was made for the current upset in industrial progress due to the nationwide strike wave. Labor disputes in the oil industry itself, to be sure, have either been settled or soon will be, but hopes that 4 million new automobiles by the year-end would be thirsting for gasoline and lubricants must now be radically revised, and the date for even initial step-up in car production has been seriously delayed.

As thousands of antedeluvian cars, trucks and busses daily are going on to the scrap pile, the lag in reaching an eventually glowing volume potential is correspondingly extended. Similarly, all interruptions to production in every form of industry naturally check demand for petroleum essentials of every description. Fortunately for the oil industry, it emerges from 1945 into the new year in the strongest financial shape in its long history, and with net earnings for the year just ended arousing warranted cheers from the shareholders in many of its strongest segments. Despite rising costs and heavy taxes, net earnings during war years of 30 large oil concerns to the end of even 1944 averaged 7.9% on their invested capital, compared with 6% in the 1934-37 period. When the tally for 1945 is complete, still greater improvement will be noted. While the current financial strength of the industry is such as to assure wholly com- (*Please turn to page 666*)



## *Position of Leading Oil Stocks*

| Company | 1936-9 Avge. Net | 1941-4 Avge. Net | 1945 Net | 1944 E.P.T. | 1945 Dividend | Recent Price | Price Earnings Ratio | Div. Yield | Investment Rating | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|
| | —In Dollars Per Common Share— | | | | | | | | | |
| Amerada Petroleum | $2.30 | $5.04 | $7.13(a) | None | $3.00 | $140 | 19.6 | 2.1% | B2 | Small but strong producer of crude oil. Large and valuable holdings in various States. Earnings widely cover current dividend. |
| Atlantic Refining | 2.29 | 4.15 | .34 | None | 1.50 | 35 | 102.6 | 4.3 | C+3 | Important refiner on Eastern Seaboard, producing major requirements of crude. Strong trade position. Recent earnings drop likely to prove temporary. |
| Barnsdall Oil | .97 | 1.70 | 1.96(a) | None | .80 | 23 | 11.7 | 3.5 | C+2 | Producer and marketer crude oil and gas. Has acreage holdings in 23 States. Earnings fairly stable. No change in dividend likely. |
| Continental Oil | 1.77 | 2.92 | 3.45(a) | None | 1.60 | 37 | 10.7 | 4.3 | B2 | A fully integrated unit with extensive reserves Midcontinent and California fields. Broad margin of earnings supports dividend. |
| Gulf Oil | 2.38 | 3.52 | 5.06(b) | None | 2.00 | 62 | 12.2 | 3.2 | B2 | A Mellon-controlled integrated operator, with sizeable domestic and foreign oil reserves. No change likely in current dividend rate. |
| Humble Oil | 2.04 | 2.37 | 3.30E | $1.43 | 1.50 | 51 | 15.4 | 3.0 | B2 | Low cost producer of crude, controlled by Standard Oil Co. (N. J.) Domestic oil reserves huge. Refinery output substantial. Dividend safe. |
| Mid-Continent Petroleum | 1.85 | 3.26 | 4.18(a) | .45 | 1.75 | 33 | 7.8 | 5.3 | B—2 | Small but complete unit operating in Southwest. Favorable finances, steady earnings warrant dividend at current rate. |
| Ohio Oil | .54 | 1.90 | 2.23(a) | .16 | 1.00 | 21 | 9.4 | 4.8 | B—2 | Medium sized producer and distributor of crude oil in Mid West. Earnings variable but regular dividend secure. Payment extras uncertain. |
| Pan-American Petr. & Tr. | .72 | 1.16 | 1.68(a) | 1.11 | .25 | 18 | 10.7 | 1.4 | C+2 | Refiner and distributor petroleum products, largely non-integrated. Earnings erratic. Near term dividend prospects uncertain. |
| Pantepec Oil of Venezuela | ...... | .22 | 1.10(b) | ...... | .48 | 11 | 10.0 | 4.4 | C2 | Owns jointly with Creole Petroleum Co. important oil concessions in Venezuela. Speculative potentials bright. Dividend probably safe. |
| Phillips Petroleum | 3.42 | 3.47 | 5.05(a) | None | 2.00 | 52 | 10.3 | 3.8 | B2 | Strong, well integrated unit. Largest producer natural gasolene. Low costs contribute to stable earnings and dividends. |
| Plymouth Oil | 2.37 | 1.85 | 1.98(a) | None | 1.00(x) | 22 | 11.1 | 4.5 | B2 | Specializes in production and sale of crude. Exports and domestic sales support modest volume. Dividends conservative but earnings are variable. |
| Pure Oil | 1.33 | 2.74 | 3.16(b) | 1.05 | .75 | 22 | 6.9 | 3.4 | B2 | A complete oil unit with sizeable reserves of crude East of the Rockies. Ample coverage of earnings favors conservative dividend. |
| Quaker State Oil Ref. | 1.12 | 1.38 | 1.37(a) | 1.63 | 1.00 | 22 | 16.0 | 4.5 | B2 | Small but well established refiner of Pennsylvania oil and greases. Production of crude does not meet refinery needs. Stable dividend record. |
| Richfield Oil | .58(c) | .99 | 1.12(a) | .80 | .75 | 16 | 14.3 | 4.7 | C+2 | Pacific Coast producer. Output of crude small relative to refined products. Volume and finances warrant moderate dividend. |

(a) For 12 months ended Sepetmber 30, 1945. (b) For 12 months ended June 30, 1945. (c) 1938-9 Avge.
(E) Estimated. (x) Plus 1½% Stock.

*Table continued on following page*

## *Position of Leading Oil Stocks (continued)*

| Company | In Dollars Per Common Share: 1936-9 Avge. Net | 1941-4 Avge. Net | 1945 Net | 1944 E.P.T. | 1945 Dividend | Recent Price | Price Earnings Ratio | Div. Yield | Investment Rating | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|
| Seaboard Oil of Del. | $1.72 | $1.33 | $2.18(a) | None | $1.00 | $29 | 13.3 | 3.4% | B2 | Smaller but well established producer of crude. Diversified holdings substantial. Texas Co. owns third interest in company. Present dividend rate safe. |
| Shamrock Oil & Gas | .04 | .87 | .87 | $.40 | .30 | 23 | 26.4 | 1.3 | B—2 | Production centered on natural gas and crude from own wells in Panhandle. Earnings, dividends variable. Small payment possible. |
| Shell Union Oil | 1.12 | 1.63 | 2.32(a) | 1.86 | 1.50 | 31 | 13.3 | 4.8 | B2 | Among integrated leaders in Industry. Business of international scope. Conservative accounting policies favor continued dividends current rate. |
| Sinclair Oil | .94 | 1.70 | 2.05(b) | Not Avail. | 1.00 | 19 | 9.2 | 5.2 | B—2 | Large independent operator in all divisions of industry. Reserves of crude substantial but far below refinery output. Dividend rate fairly secure. |
| Skelly Oil | 3.68 | 6.17 | 7.44(a) | 4.08 | 2.00 | 55 | 7.3 | 3.6 | B—2 | Well integrated but relatively small unit. Reserves of crude ample. Wide margin of earnings protects conservative dividend. |
| Socony-Vacuum | 1.40 | 1.38 | 1.82(a) | 1.30 | .65 | 17 | 9.3 | 3.8 | B2 | A leader in domestic and foreign markets. Large holdings of crude reserves abroad. Refinery output great. No change in dividend rate. |
| South Penn. Oil | 3.13 | 3.94 | 3.82(b) | None | 3.60 | 57 | 14.9 | 6.3 | B2 | Largest producer Pennsylvania crude. Strong trade position for gasolene and lubricants. Liberal dividend policies relative earnings. |
| Standard Oil of Calif. | 2.14 | 2.75 | 4.65(a) | .23 | 2.00 | 46 | 9.8 | 4.3 | B2 | Leading integrated Pacific Coast operator. Oil reserves California and Near East immense. $2 dividend probably stable. |
| Standard Oil of Indiana | 2.70 | 3.31 | 4.01(b) | .74 | 1.50 | 40 | 10.0 | 3.7 | B2 | Dominant unit in Midwest in all divisions. Ownership extensive pipelines creates efficiency. Ample earnings support current dividend. |
| Standard Oil of N. J. | 3.88 | 4.59 | 6.17(b) | 1.79 | 2.50 | 67 | 10.8 | 3.7 | B2 | Outstanding domestic and foreign unit. Facilities for production and refining worldwide. Present dividend widely covered by earnings. |
| Sun Oil | 1.99 | 4.01 | 4.44 | 1.84 | 1.00(x) | 64 | 14.4 | 1.5 | B2 | Medium sized refiner with widespread holdings of oil reserves, both at home and abroad. Stable dividend record unlikely to change. |
| Texas Co. | 3.58 | 4.17 | 4.86(a) | 1.14 | 2.00 | 56 | 11.5 | 3.5 | B2 | Third largest refiner and ranks second as producer. Big domestic and foreign reserves. Conservative dividend likely to continue. |
| Tide Water Assoc. Oil | 1.36 | 1.95 | 2.64(a) | .94 | .80 | 20 | 7.5 | 4.0 | B2 | Moderate size integrated unit with nation-wide business. Earnings not spectacular but steady. 20 cents quarterly dividend appears warranted. |
| Union Oil | 1.68 | 1.50 | 2.23(a) | None | 1.00 | 25 | 11.2 | 4.0 | B—2 | Second largest integrated producer on West Coast. Prospects low-cost domestic and foreign production good. 25-cent quarterly dividend safe. |

(a) For 12 months ended September 30, 1945. (b) For 12 months ended June 30, 1945. (x) Plus 10% Stock.

# *Realistic Survey* of the STEELS

☆ ☆ ☆

By J. C. CLIFFORD

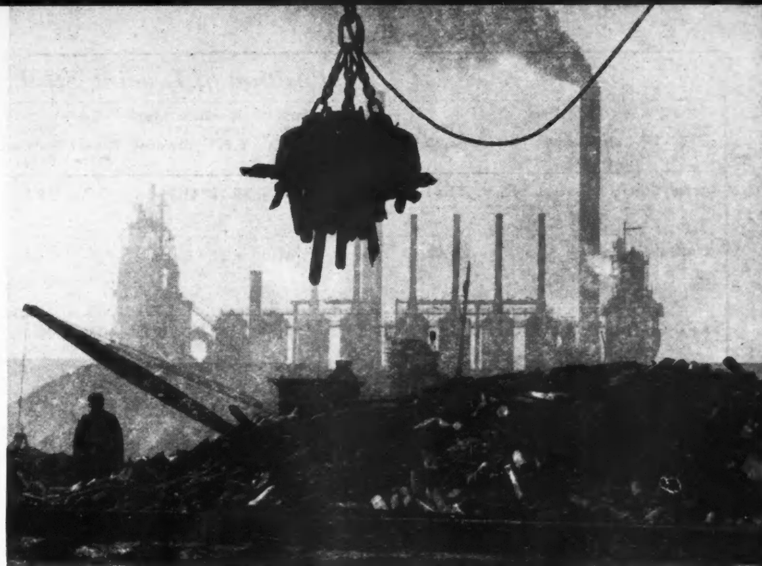


*Photo by Cushing*

**With the strike settled, steel industry should move rapidly into high gear production**

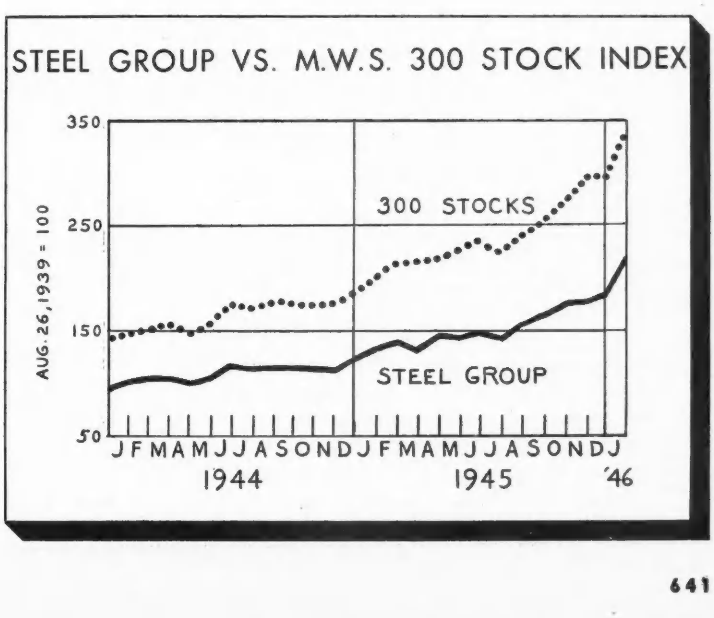
SHED A TEAR for steel—the industry whose supposed decadence the prophets of doom only recently have been lamenting. What of the effects of rising labor costs and greatly increased competition from lighter metals? Are the prospects so dismal as calamity howlers have feared?

Now that the industry-wide strike has ended, the future can be scanned with assurance that the survey means something. As far as the naked eye can discern, the steel makers seem headed for the brightest period in a decade or longer. Earnings at a higher rate than attained at any time during the war appear a distinct possibility by the latter part of the year. As a result, numerous small, marginal producers should be able to pay larger dividends this year and next. Principal factors contributing to this encouraging outlook are:

1. Dearth of supplies for civilian requirements.
2. Prospect of steady operations at a relatively high rate of capacity where greatest efficiency and lowest costs are achieved.
3. Restoration of reasonable profit margins on such products as have been manufactured under OPA ceilings at a loss.
4. Greatly increased mechanization of production tending to lower the normal cost factor.
5. Prospect of above-average demand for steel in such major consuming industries as automobiles and building for a prolonged period.
6. Freedom from renegotiation of contracts on civilian orders.
7. Closer supervision of manufacturing operations tending to avoid costly overtime work that characterized essential wartime volume.
8. Tax benefits, including elimination of excess profits taxes and effects of heavy depreciation last year of emergency plant facilities that distorted 1945 statements.

Right at the moment, the most encouraging aspect of the situation is that hundreds of thousands of men are going back to work in steel mills. That means a turn for the better has been taken. The settlement granting to union members a general wage increase of 18.5 cents an hour and to producers a formula for upward adjustment of prices equivalent to $5 a ton on carbon and alloy steel products appears to have been reasonably satisfactory to both sides. The solution does not remove controls and is not all that could have been desired, but it appears to have brought adjustments aimed at inducing labor to put its shoulder to the wheel.

Resumption of operations does not necessarily mean that the industry has hurdled all barriers. Price increases are not being granted with the



## *Position of Leading Steel Stocks*

| Company | 1936-9 Avge. Net | 1941-4 Avge. Net | 1945 Net | 1944 E.P.T. | 1945 Dividend | Recent Price | Price Earnings Ratio | Dividend Yield | Investment Rating | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|
| | In Dollars Per Common Share | | | | | | | | | |
| Acme Steel | $1.61 | $2.24 | $2.08 | $5.32* | $1.35 | 37½ | 18.0 | 3.6% | B1 | Attainment of increased efficiency and tax relief should improve earnings and enhance dividend outlook for this steel fabricator. |
| X Allegheny Ludlum Steel | .23(y) | 3.16 | 2.76(a) | 6.92 | 2.00 | 46 | 16.6 | 4.3 | B2 | Specialization in stainless and alloy products commanding premium prices is favorable factor in period of consumer goods expansion. |
| American Rolling Mill | 1.08 | 1.92 | 1.78(a) | .47 | .80 | 36 | 20.2 | 2.2 | C+1 | More intensive concentration on stainless steels for household appliances should aid earnings stability. Higher dividend possible. |
| X Bethlehem Steel | 3.69 | 8.54 | 9.52 | 30.27 | 6.00 | 110 | 11.5 | 5.4 | B—1 | Maintenance of operations at high rate of capacity should expand earnings but increase in dividend rate may be deferred until 1947. |
| Byers, A. M. | Def. 1.79 | 3.26 | 2.51 | None* | .25 | 35 | 14.0 | .7 | C1 | Recovery in demand for this compar products may be relatively slow but should be sufficient to encourage hope of dividend increase. |
| Carpenter Steel | 1.68 | 4.37 | 3.08 | None* | 2.25 | 53 | 17.2 | 4.2 | B—2 | Prospect for steady increase in demand for high alloy and high speed tool product should stimulate earnings. Rise to $3 rate possible. |
| Colorado Fuel & Iron | .27(z) | 1.75 | 1.73 | N.A. | .52 | 22 | 12.7 | 2.3 | C1 | Acquisition of Wickwire-Spencer should help volume and improve earnings. Boost in dividend seems likely to $1 annual rate. |
| Continental Steel | 3.40 | 3.88 | 3.05 | None* | 2.00 | 59 | 19.3 | 3.4 | C+2 | Approval of proposed two and one-half-for-one split expected to pave way for higher dividend rate. Earnings trend favorable. |
| Crucible Steel | .56 | 8.23 | Def. 4.34(a) | 36.85 | 2.00 | 53 | ...... | 3.7 | C+2 | Leading producer of specialty steel products. Current earnings should be well sustained after large scale output is reached. |
| Inland Steel | 6.61 | 7.13 | 6.04 | 2.34* | 4.50 | 113 | 18.7 | 3.9 | B2 | End of excess profits tax virtually assures sharp rise in earnings and ultimate increase in dividend rate. |
| Interlake Iron | .18 | .73 | .33(a) | None | .25 | 20 | 60.6 | 1.2 | C+2 | High rate of operations essential for worth-while profits for this independent pig iron producer. Higher dividend warranted. |
| Jones & Laughlin Steel | Def. 4.43 | 5.52 | 2.91 | None* | 2.00 | 53 | 18.2 | 3.7 | C+1 | Prospect for good volume and reasonable profit margin points to sharp increase in earnings. Higher dividend likely later. |
| Keystone Steel & Wire | 1.39 | 1.95 | 2.10 | 3.49* | 1.40 | 36 | 17.1 | 3.8 | C+2 | Large deferred demand for fence wire and high rural purchasing power are favorable factors. |
| National Steel | 5.97 | 5.84 | 5.04 | 4.67 | 3.00 | 91 | 18.0 | 3.2 | B1 | Tax relief together with large demand from automobile industry point to sharp gain in earnings and dividend. |
| Republic Steel | .63 | 2.44 | 1.36 | 4.40 | 1.00 | 40 | 23.2 | 2.5 | C+1 | Increased plant efficiency and bright outlook for automobiles encourage hope of earnings justifying higher dividends. |
| Sharon Steel | 1.19 | 2.36 | 2.91(a) | 4.43 | 1.00 | 40 | 13.8 | 2.5 | C+1 | This marginal producer likely to benefit from large deferred demand for basic products. |
| Superior Steel | 1.27 | 4.43 | 2.42(a) | 11.39 | 1.20 | 47 | 19.4 | 2.5 | C+2 | New process for coating carbon or stainless steel promises continuance of high earnings. |
| U. S. Pipe & Foundry | 3.18 | 2.67 | 2.03 | None | 1.60 | 60 | 29.5 | 2.6 | C+1 | Recovery in residential building and more abundant labor should lift earnings and dividend later in cyle. |
| U. S. Steel | 2.24 | 6.03 | 3.65 | None | 4.00 | 96 | 26.3 | 4.1 | B—1 | Substantial improvement anticipated in last half but no increase in dividend likely before 1947. Gaining better quality. |
| X Wheeling Steel | 2.77 | 6.32 | 3.75 | 3.85 | 1.50(x) | 58 | 15.4 | 2.5 | C+1 | Increased plant efficiency and leverage capitalization favor brisk rise in earnings and possible higher dividend. |
| Woodward Iron | 2.88(z) | 3.09 | 2.54(a) | None | 1.50 | 40 | 15.7 | 3.7 | C+2 | Outlook for high rate of operations seems favorable for earnings of this Southern pig iron company. Dividend secure. |
| X Youngstown Sheet & Tube | 3.86 | 5.84 | 4.60(a) | 3.49 | 2.00 | 72 | 15.6 | 2.7 | C+1 | Large deferred demand for pipe and wider profit margins on other grades should boost earnings and dividends. Finances improved. |

* 1945. N.A. Not available.
(a) For 12 months ended September 30, 1945.
(x) Includes dividend payable Jan. 2, 1946.
(y) 1938-9 Avge. (z) 1937-9 Avge.
X See Introduction Page 637.

alacrity and generosity that characterized the wage boost. Consequently, the outlook for earnings improvement remains uncertain, especially for fabricators whose costs are destined to increase almost immediately.

### Appraising Higher Wages and Prices

In appraising the outlook for the year, a rough idea may be obtained by estimating effects of the wage increase and price advances. Obviously, results will vary considerably, depending on individual plant efficiency of production. Probably labor costs can be approximated by estimating the increase in straight-time pay of 17.4 per cent and eliminating overtime. Benefits of price advances may be gauged by allowing for the facts that operations may fall short of capacity and that finished products may average only 70 per cent to 75 per cent of rated ingot capacity.

Benjamin Fairless, president of U. S. Steel Corp., has estimated that the wage increase would mean a rise in costs of about $100 million for his company in the coming twelve months. This probably takes into account higher fuel costs and increased freight rates on raw materials that are almost certain to materialize in the next few months. This increase appears to exceed prospective enlargement of gross revenues from the price advance authorized by the stabilization director. U. S. Steel probably has an effective annual capacity of 22 million tons operating at an average of 80 to 85 per cent. Hence, allowing for a normal shrinkage in finished products, output may approximate between 18 and 19 million tons annually. A price increase averaging $5 a ton, therefore, might yield additional revenue for U. S. Steel of $80 to $90 million. It is possible, of course, that as operations are concentrated in the most efficient mills, gradual improvement in results may be achieved. Management apparently is hopeful that the recent wage increase can be made to offset higher labor costs.

### High Operating Rate

Indications point to a relatively high rate of operations for the industry now that principal controversial problems have been adjusted. Demand for all types of steel used in civilian lines promises to continue urgent for some time to come. The automobile industry, for example, is expected to require unprecedented amounts of sheets, while manufacturers of household appliances will require record tonnages of alloy and stainless steels for at least another two of three years. Under the circumstances, producers should encounter no problem in maintaining operations well above the break-even point.

The prospect for continuous high rate of operations is favorable for earnings. Absence of periodic interruptions contributes to plant efficiency and permits achievement of low cost output. Operating profits are jeopardized when unexpected events compel mills to close down.

Another recent development encouraging to the prospect of more satisfactory profit margins is the likelihood of price adjustments on products which have been produced in recent years at a loss under inflexible OPA ceilings. Such adjustments are anticipated under the recent agreement with the government authorizing price advances averaging $5 a ton. As they are obtained, managements will be in position to get a better balance in production. In other words, there will be fewer instances of holding down output of products merely because they could not be sold at a profit. As more normal balance is achieved, operating efficiency is further enhanced.

### Growing Efficiency

Steady increase in installation of automatic machinery is in prospect. As labor costs rise, the trend toward installing new labor saving devices is intensified. It is obvious that the higher wage rates go, the more rapidly mechanization of production pays for itself. The recent sharp advance in wages, for example, may encourage installation of machinery that previously would not have been adopted because it could not pay for itself in less than two to three years. Now installation becomes economical because under higher rates such equipment presumably could pay for itself within a year or eighteen months. In this manner, management moves steadily to reduce production costs and to strengthen its competitive position.

Operating results on civilian orders should be more satisfactory than on government war contracts. The problem of renegotiation which has been a bugbear for most steel concerns in recent years will be absent this year. In general, profit margins should average better on civilian business than on army and navy purchases. This fact must be taken into consideration in estimating probable results.

The change from government orders to civilian business also permits closer supervision of manufacturing operations because of elimination of expensive overtime charges. Whereas wartime demands necessitated speed in output regardless of cost, now conditions are reversed. Overtime apparently will be authorized only where premiums can be charged to compensate for higher costs. Elimination of overtime pay obviously tends to reduce cost of any product.

### Effect of Tax Relief

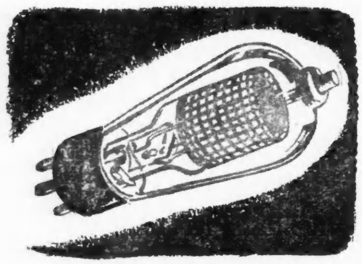
Tax benefits promise to have an important part in determining 1946 earnings. Some efficient producers of light steels seem likely to gain a distinct advantage from elimination of excess profits taxes. On the other hand, this is unlikely to be a factor with the two large integrated companies whose earnings in recent years have been little affected by this extra tax burden. Depreciation charges seem certain to be substantially smaller this year, however, as a result of acceleration of depreciation emergency plant facilities in 1945 in accordance with Treasury rulings. Such abnormal depreciation charges had the effect (*Please turn to page* 670)

# RADIO COMPANIES *Face Peacetime Competition*

Photo by INP

**Near term demand for radio equipment is large but competition will mount with increasing intensity**

By EDWIN A. BARNES



UNABLE TO PURCHASE radio receiving sets for the past few years, consumers are eagerly awaiting an opportunity to purchase 25,000,000 new models. To the extent that the radio industry will be favored by a large deferred demand, it has much in common with other manufacturers of consumer durable goods but—and this is the big factor in the outlook—the changes wrought within the industry during the war have brought about a competitive situation which surpasses anything previously witnessed. And the radio industry, even prior to the war, was characterized by intense rivalry among both large and small manufacturers. This, however, did not prevent several of the leading companies from capturing the lion's share of the market. In due course, the same pattern may develop, but in the meantime the profit outlook for individual companies is highly uncertain.

The reconversion of the radio industry to a peacetime basis was a comparatively simple matter, a condition which undoubtedly led the management of many smaller companies to enter the consumers' market. To meet the huge wartime demand for radio, radar and other electronic products many of the smaller manufacturers were able to expand their sales as much as twelvefold. With plant and equipment geared to this abnormal demand, the desire of these companies to utilize it effectively in a peacetime economic environment is understandable. Prior to the war there were about 80 manufacturers turning radio receiving equipment. Today there are some 150 companies which have indicated their intention of attempting to garner a profitable segment of this lucrative field. That the bulk of them will fail to do so is virtually a foregone conclusion.

Recalling the days when radio was in its infancy, there were many manufacturers which have long since faded from the picture. And, moreover, not all of them were small. A number of large companies turned out radios as a side-line, but abandoned the idea when the competitive going became too rough. Nor does the record of Radio Corp. of America, one of the pioneers in the field, suggest that leadership and profits are necessarily synonymous, from a stockholder's standpoint.

As a result of the urgency of the war, the radio industry made great technological strides and it is counting heavily on such inducements as improved tonal qualities, static-less reception, television and radio-phonograph combinations to make present usable sets virtually obsolete. Many of these improvements will not be incorporated in new sets for some months but, somewhat in the fashion of the automobile industry, manufacturers are hopeful that model changes will encourage replacement buying, once the cream has been skimmed from deferred demand.

Despite the comparative ease with which the radio industry swung over to a peacetime basis, new models have been slow in making an appearance. Last October it was hopefully forecast that a half million new sets would be on the market in time for Christmas. Subsequently, however, manufacturers were subjected to recurring delays resulting from work stoppages and pricing difficulties which restricted the availability of essential parts purchased from outside suppliers. Today, six months after VJ day, dealers are still being stocked with samples and can do little more than take orders for later delivery.

Volume production may be as long as six months away but once the industry is free of restrictions and

production reaches an all-out basis, it should not take more than two years at most to supply urgent demand. What will happen after that is anyone's guess, beyond the fact that a competitive battle royal appears certain.

Possibly by that time television will have reached the stage of perfection which will attract a large number of buyers for video sets. For some time now television has been heralded as being "just around the corner" and it has suffered from ill timed ballyhoo. Even now a controversy is raging within the ranks of industry, involving both manufacturers and broadcasters, over the relative merits of black and white television and (*Please turn to page* 667)

**Position of Leading Radio Stocks**

| Company | In Dollars Per Common Share: 1936-9 Avge. Net | 1941-4 Avge. Net | 1945* Net | 1944 E.P.T. | 1945 Dividend | Recent Price | Price Earnings Ratio | Dividend Yield | Investment Rating | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|
| Columbia Broadcasting A | $2.43 | $2.64 | $2.53 | $3.45 | $1.80 | 42 | 16.7 | 4.3% | B2 | Current earnings should be well sustained and tax relief will aid further. Dividends should be amply covered and might be increased moderately later in the year. |
| Crosley Corp. | .48 | 4.23 | 2.02(a) | 19.29 | 1.00 | 39 | 19.4 | 2.5 | C+3 | Diversification to include other consumer goods products lessens dependence on radio. Expansion program may strengthen competitive position. No early change in dividends. |
| Emerson Radio & Phono. | ........ | 1.71 | 2.01 | N.A. | 1.00 | 33 | 16.4 | 3.0 | C2 | Specializing in low priced smaller sets, company has made good progress competitively. Good chance that current dividends will at least equal 1945 payments. |
| Farnsworth Television & Radio | Def. 53(y) | .37 | .68 | 1.71** | Nil | 18 | 26.4 | .... | C2 | Company has good potentialities, particularly in field of television. Interim earnings, however, may continue small and dividends deferred for a further period of time. |
| Hazeltine Corp. (z) | 1.63 | 2.05 | N.A. | 5.04 | 1.25 | 25 | ...... | 5.0 | C+2 | Following 2-for-1 split dividends have been initiated on new stock at rate of 25 cents quarterly. Earnings derived chiefly from royalties. Shares speculative. |
| Philco | .38(x) | 2.23 | 2.11(a) | 6.61 | 1.00 | 42 | 20.0 | 2.3 | B3 | Ranked the largest manufacturer of receiving sets. Output also includes refrigerators, storage batteries, etc. Current dividends will be at least $1 a share. |
| Radio Corp. of America | .36 | .49 | .62(a) | 1.80 | .20 | 18 | 29.0 | 1.1 | C+2 | One of the leaders in the field but past record of earnings and dividends has not been impressive. Dividends not likely to exceed 20 cents a share this year. |
| Raytheon Mfg. | .09 | 1.23 | 3.37 | 9.00** | 5% Stock | 24 | 7.1 | .... | C+2 | Had large war profits and should do well in future but heavy working capital needs will probably further delay payment of cash dividends. |
| Sylvania Electric Products | 1.63 | 1.84 | 2.78(a) | 7.20 | 1.25 | 40 | 14.3 | 3.1 | C+2 | Large manufacturer of tubes and other electrical products. Controls Colonial Radio. Good earnings record and current dividends should total at least $1. |
| Zenith Radio | 2.48 | 3.08 | 3.37 | 5.84 | 1.00 | 40 | 11.8 | 2.5 | C+2 | Fairly strong competitive position. Possibilities for development of hearing aid considered fair. Another $1 dividend likely to be paid in April. |

* Fiscal year, unless otherwise indicated.
** 1945 E.P.T. per share.
N.A. Not available.

(a) For 12 months ended September 30, 1945.
(x) 1937-9 Avge.
(y) For year ended April 30, 1940.
(z) Adjusted for capital changes.

☆ ☆ ☆

# *Prospects Bright* For TIRE And RUBBER Companies

Photo by INP

**Urgent demand for tires and other rubber products assures capacity output for some months to come**

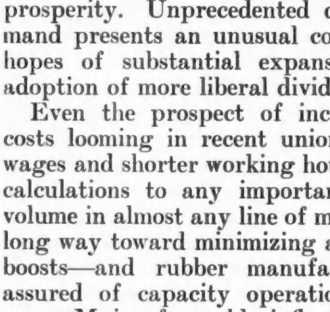
By WILSON BLACK

IF ANY INDUSTRY has a "green light" signaling full speed ahead, it is rubber goods manufacturing. Looking down all dark alleys, it is difficult to envision any economic ghosts likely to materialize as serious threats to the bright promise of peacetime prosperity. Unprecedented deferred consumer demand presents an unusual combination that rouses hopes of substantial expansion in earnings and adoption of more liberal dividends.

Even the prospect of increased manufacturing costs looming in recent union demands for higher wages and shorter working hours is unlikely to upset calculations to any important extent. Production volume in almost any line of manufacturing can go a long way toward minimizing adverse effects of wage boosts—and rubber manufacturers certainly are assured of capacity operations for some time to come. Major favorable influences include:

(1) Relatively small reconversion problems.
(2) Abundance of raw materials at reasonable prices.
(3) Satisfactory supply of experienced labor.
(4) Freedom from threat of excess productive capacity.
(5) Technological progress enlarging outlets for rubber goods.
(6) Benefits of elimination of excess profits tax.

In appraising this industry's outlook, one is impressed with the far-reaching significance of wartime developments in production. Final perfection of synthetic rubber as well as rayon cord as a replacement for cotton in tire fabric has completely changed the character of the business. No longer are tire



companies wholly dependent on foreign sources for crude raw materials over which they have no price control. Nor are they now at the mercy of Nature in price fluctuations of cotton fibre. In other words, for the first time in history these manufacturers have been able to estimate with a measure of accuracy their probable raw materials costs. Risks of inventory losses have been reduced to a minimum.

Stability of operating costs and inventory valuations are particularly important in an industry such as this in which profit margins ordinarily are narrow and selling prices are not readily changed. In the past, unusual fluctuations of inventory values frequently have meant the difference between operating profits and losses. Now that deferred demand is so substantial that price cutting is not to be expected, the favorable influence of stability in raw materials costs should be more than ever apparent. This factor alone has done much to take the rubber group out of the speculative class and place it in an investment category. Hence, rubber stocks now deserve a higher price earnings ratio than was considered appropriate before the war.

## Favorable Factors Plentiful

Improvement in earnings is expected to become evident immediately. The major tire companies have not been adversely affected thus far by the strike fever. They have been busy building inventories to fill future requirements of motor car manufacturers and to stock dealers' shelves throughout the country. Replacement demand gives promise of being sufficient to absorb all casings not taken by motor car companies for original equipment.

Unlike many other industries, rubber manufacturers seem to be assured of an abundance of all essential materials. Natural rubber supplies probably will be smaller than had been hoped for a few months ago, but indications point to receipt of 250,000 to 300,000 tons from the Far East in 1946. This would be equivalent to almost a third of total

prospective 1946 requirements of 900,000 tons. The balance of 600,000 tons will be supplied by synthetic plants operated for the government by individual rubber companies.

Costs of rubber seem likely to be less than before the war in spite of inflationary influences in most other commodities. Although prices apparently have not been determined, it seems likely that an agreement may be reached among representatives of the United States, Great Britain and the Netherlands, all of which are greatly interested in an accord satisfactory to producers of natural rubber. It is assumed that the price of synthetic rubber may be advanced nearer parity with supplies from the Far East. Such an arrangement would avoid the necessity of continuing a subsidy on domestic output.

This industry also is fortunate in that it has a satisfactory supply of experienced labor and has escaped the disturbing consequences of an excess of productive capacity. Plans for constructing large Government tire plants were cancelled last Summer when it became evident that military requirements could be filled without additional facilities. As a result, the threat of competition from Government plants has been averted.

On the basis of latest available reports on operations, it seems likely that output of principal companies this year may range from 20 per cent to 30 per cent above the best previous peacetime year in 1941. Although profit margins may not be so wide as five years ago and taxes obviously will be substantially higher, nevertheless, earnings give promise of being double or triple 1941 figures. Goodyear and Goodrich, for example, may earn as much as $10 to $12 a share while U. S. Rubber and Firestone should be able to report as much as $8 or $9 a share. Under the circumstances, it would be reasonable to look for higher dividend rates. For example, distributions of $4 to $5 a share would seem more appropriate under the circumstances than the $2 to $2.50 a share paid by major factors in the industry in 1945.

Demand for mechanical rubber goods and footwear is almost as urgent as for tires. Accordingly, the companies specializing in such products appear destined to experience exceptionally favorable results this year.

Briefly, the principal favorable forces at work in behalf of rubber goods producers are: tax relief and huge deferred consumer demand, which assures freedom from disastrous (*Please turn to page* 667)

## *Position of Leading Rubber Shares*

| Company | In Dollars Per Common Share: 1936-9 Avrg. Net | 1941-4 Avrg. Net | 1945 Net | 1944 E.P.T. | 1945 Dividend | Recent Price | Div. Yield | Price Earnings Ratio | Investment Rating | COMMENTS |
|---|---|---|---|---|---|---|---|---|---|---|
| xFirestone Tire | $2.48 | $5.74 | $7.42 | $13.41 | $2.50 | 77 | 3.3% | 10.3 | B1 | Expansion in retail chain expected to gain momentum, increasing sales volume and enhancing earnings and dividend outlook. |
| General Tire | 2.51 | 2.76 | 3.00(e) | 5.01 | 1.00 | 43 | 2.3 | 14.3 | C+1 | Large replacement demand expected to continue beneficial for independent tire companies for some time. |
| Goodrich Co., B. F. | 1.32 | 6.42 | 7.00(e) | ...... | 2.25 | 77 | 2.9 | 11.0 | B1 | Expansion of sales of plastic products and other new items add to bright outlook. Increase in dividends likely. |
| Goodyear Tire | 2.58 | 6.25 | 5.00(e) | ...... | 2.00 | 69 | 2.9 | 13.8 | B1 | Recovery of mail order business together with original equipment sales gives bright picture. Another candidate for higher dividend. |
| Hewitt Rubber | 1.44 | 2.84 | 3.00(e) | 3.46 | 1.00 | 29 | 3.4 | 9.6 | C+1 | Although deferred demand for industrial products not so large as for tires, outlook well above prewar average. |
| Intercontinental Rubber | .12 | .79 | 0.75(e) | ...... | 0.35 | 13 | 2.7 | 17.3 | C+2 | Recovery of East Indies plantations threatens keener competition for Latin American rubber output. |
| Lee Rubber & Tire | 3.61 | 5.09 | 5.00 | 4.13(a) | 2.50 | 72 | 3.5 | 14.4 | B1 | Long term demand for all types of tires favorable for this low cost producer. More liberal dividend policy indicated. |
| Norwalk Tire & Rubber | .29 | .53 | 0.95 | 2.48(a) | 0.45 | 18 | 2.5 | 18.9 | C1 | Another small independent likely to benefit from relaxation in keen price competition on replacement business. |
| xU. S. Rubber | 2.01 | 4.45 | 4.44 | N.A. | 2.00 | 71 | 2.8 | 16.0 | B1 | Recovery of Far Eastern plantations in addition to favorable sales outlook promises wide earnings improvement. Dividend rise probable. |

* Combined "A" and "B" shares. (a) 1945. (e) Estimated. N.A. Not Available. x See Introduction Page 637.

# *Reappraisal of Leading Specialty Stocks*

| | In Dollars Per Common Share 1936-9 Avge. Net | 1941-4 Avge. Net | 1945* Net | 1944 E.P.T. | 1945 Dividend | Recent Price | Price Earnings Ratio | Dividend Yield % | Investment Rating |
|---|---|---|---|---|---|---|---|---|---|
| (X) Abbott Laboratories | $2.35 | $3.32 | $3.34(a) | $5.02 | $2.20 | 97 | 29.0 | 2.2 | A2 |
| American Bank Note | .36 | 1.25 | 1.56(a) | 2.62 | 1.05 | 37 | 23.7 | 2.8 | B2 |
| American Can | 5.72 | 4.75 | 4.28 | 1.42 | 3.00 | 96 | 22.4 | 3.1 | A2 |
| (X) American Chicle | 7.87 | 7.02 | 6.22(a) | 4.76 | 5.00 | 140 | 22.5 | 3.5 | B2 |
| American Export Lines | 2.98(y) | 11.92 | 4.47(b) | None | 2.00(c) | 42 | 9.3 | 4.7 | C+3 |
| American Home Prod. | 4.17 | 4.97 | 4.81(a) | 2.30 | 3.00 | 110 | 22.9 | 2.7 | A2 |
| American News | 2.57 | 4.32 | 6.58 | 16.72 | 2.10 | 81 | 12.3 | 2.7 | B2 |
| American Safety Razor | 2.05 | 2.00 | 3.29(a) | 8.24 | 1.50 | 39 | 11.8 | 3.8 | B1 |
| American Viscose | 2.34 | 3.09 | 2.05(a) | 6.00 | 2.00 | 69 | 34.4 | 2.9 | B2 |
| American Woolen | Def. 7.97 | 7.96 | 6.43(b) | 57.60 | Nil | 45 | 7.0 | .... | C3 |
| Anchor Hocking Glass | 1.16(x) | 1.95 | 2.37(a) | 6.06 | 1.00 | 44 | 18.5 | 2.2 | B2 |
| Bristol-Myers (z) | 1.65 | 1.85 | 1.71 | 3.04 | 1.12 | 41 | 12.0 | 2.8 | A2 |
| Burlington Mills (z) | 1.08 | 2.22 | 2.63 | 3.36 | 1.00 | 41 | 15.5 | 2.4 | B—1 |
| Canada Dry | 1.14 | 2.51 | 2.34 | 2.79 | 1.00 | 45 | 19.2 | 2.2 | B—2 |
| Carrier Corp. | Def. .23 | 1.85 | .54 | 6.38 | Nil | 31 | 57.4 | .... | C+2 |
| (X) Celanese | 2.05 | 3.09 | 3.02(a) | 4.95 | 2.00 | 59 | 19.6 | 3.3 | B2 |
| C.I.T. Financial | 5.38 | 3.44 | 1.96(a) | None | 2.00 | 53 | 27.0 | 3.7 | B2 |
| (X) Cluett Peabody | 2.01 | 3.26 | 2.66(a) | 1.46 | 2.00 | 55 | 20.7 | 3.6 | B2 |
| Coca-Cola | 5.79 | 5.93 | 5.60(a) | 3.29 | 4.00 | 197 | 35.1 | 2.0 | A2 |
| Commercial Credit | 5.45 | 3.48 | 2.40 | N.A. | 2.00 | 52 | 21.6 | 3.8 | B2 |
| Continental Can | 2.78 | 2.08 | 1.86 | 1.72 | 1.00 | 46 | 24.7 | 2.1 | A2 |
| (X) Diamond Match | 1.61 | 1.61 | 1.57(a) | 3.82 | 1.50 | 44 | 28.0 | 3.4 | A2 |
| Endicott Johnson | 2.76 | 4.85 | 4.88 | 8.26 | 3.00 | 83 | 17.0 | 3.6 | B2 |
| Gar Wood Industries | .49 | 1.01 | .54 | 2.23 | 40 | 15 | 27.7 | 2.6 | C3 |
| Gillette Safety Razor | 1.21 | .98 | 1.42(a) | 1.95 | 1.20 | 30 | 21.1 | 4.0 | C2 |
| Greyhound | 1.97 | 3.18 | 3.53(a) | 12.83 | 1.40 | 34 | 9.6 | 4.1 | C+2 |
| (X) Hazel-Atlas Glass | 6.21 | 6.01 | 6.47(a) | 15.50 | 5.00 | 131 | 21.0 | 3.6 | A2 |
| Industrial Rayon | 1.05 | 2.42 | 2.62 | 1.80 | 2.00 | 79 | 30.1 | 2.5 | C+2 |
| (X) International Shoe | 1.91 | 2.01 | 1.66 | 1.31 | 1.80 | 48 | 28.9 | 3.7 | B2 |
| Lambert Co. | 1.66 | 2.11 | 2.89(a) | 2.63 | 2.00 | 53 | 18.2 | 3.7 | B2 |
| Life Savers (z) | 1.40 | 1.60 | 1.75(a) | 4.24 | 1.30 | 34 | 19.4 | 3.8 | B2 |
| Moore-McCormack Lines | ...... | 11.51 | N.A. | None | 1.00 | 28 | ...... | 3.5 | C+2 |
| National Oil Products | 2.99 | 2.75 | 2.29 | 3.71 | 1.10 | 58 | 25.2 | 1.9 | B2 |
| Owens-Illinois Glass | 3.12 | 3.37 | 3.30 | 4.21 | 2.00 | 86 | 26.0 | 2.3 | A2 |
| Simmons | 2.49 | 2.44 | 2.49(b) | 1.82 | 1.25 | 48 | 19.2 | 2.6 | B2 |
| (X) Sterling Drug (z) | 2.58 | 2.24 | 2.50(a) | .51 | 1.55 | 44 | 17.6 | 3.5 | B2 |
| (X) United Fruit | 4.34 | 4.52 | 6.16(b) | 1.29 | 4.00 | 112 | 18.1 | 3.5 | A2 |
| United Merch. & Mfrs. (z) | .75 | 3.20 | 3.99(b) | 6.23 | 1.50 | 53 | 13.2 | 2.8 | B2 |
| United States Plywood (z) | .50(x) | 1.56 | 1.86 | 5.47 | .70 | 45 | 24.2 | 1.5 | B1 |
| Vick Chemical | 3.83 | 3.58 | 4.03 | 2.65 | 2.00 | 84 | 20.9 | 2.3 | B2 |
| Walgreen | 1.75 | 2.24 | 2.20 | 3.27 | 1.60 | 42 | 19.1 | 3.8 | C+2 |
| (X) Wrigley | 4.22 | 3.46 | 3.08(a) | .92 | 3.00 | 82 | 27.1 | 3.6 | A2 |
| York | .21 | 1.02 | 1.02 | 2.05 | .30 | 25 | 24.5 | 1.2 | C+2 |

(a) For 12 months ended September 30, 1945.
(b) For 12 months ended June 30, 1945.
(c) Includes .50 payment Jan. 2, 1946.

(x) 1938-9 Avge.
(v) 1939.
(z) Adjusted for Capital Changes.

* Fiscal year unless otherwise indicated.
N.A. Not Available.

(X) See Introduction Page 637.

# Comments

| nvestment Rating | |
|---|---|
| A2 | Third largest maker ethical drugs. Fine dividend record. Heavy tax cushion. Shareholders may receive better returns. |
| B2 | Dominant producer of engraved bank notes and security certificates. Earnings variable but near term dividend probably secure. |
| A2 | Leading manufacturer metal and fiber containers. Strong finances and wide coverage of current dividend assures stability. |
| B2 | One of the largest chewing gum manufacturers with numerous Latin-American branches. Sugar shortage adverse factor but no change in dividend likely. |
| C+3 | Important ship operators with controlling interest in Amer. Export Airlines, Inc. Continued payment dividends at current rate indicated. |
| A2 | Aggressive and expanding drug manufacturer with broad diversification. Long and stable earnings record. No near change in dividend. |
| B2 | Long successful newsdealers on national scope. Prospects bright. Expanding earnings may warrant further payment extra dividends. |
| B1 | Ranks second in field, and enjoys considerable diversification. Tax relief should increase earnings. Dividend probably safe. |
| B2 | Largest producer rayon yarns and fibers. Prospects expanding sales excellent. Dividend comfortably earned. No change in rate likely. |
| C3 | World's leading maker of woolens and worsteds. Medium term outlook encouraging but prewar record unimpressive. Arrears on preferred preclude common dividend. |
| B2 | Well established maker glass containers, metal caps. Long range prospects good. Relief from EPT supports expectation current dividend stability. |
| A2 | Third largest producer proprietary drugs. Earnings steady. Bright near term outlook may bring improved dividend payments. |
| B—1 | Largest weaver rayon fabrics. Entirely integrated. 1946 outlook promising. Current dividend easily covered and may be increased. |
| B—2 | Important producer soft drinks. Also distributes liquors. Long term earnings trend has been upward. 25 cents quarterly dividend seems safe. |
| C+2 | Leading concern in air-conditioning field. Construction boom should enhance volume and profits, but expansion needs may preclude dividends. |
| B2 | Outstanding maker acetate rayons. Strong trade position. Longer range outlook exceptional. Dividend rate not likely to change. |
| B2 | Largest instalment finance concern. Volume and net should expand rapidly when consumer goods become plentiful. Meanwhile, dividend appears secure. |
| B2 | An important, long established maker of shirts and collars. Earnings, dividend record good. Prospects bright. Dividend assured. |
| A2 | Dominant producer soft drinks. Earning power long established. Sugar supply restricts current progress but extra dividend at year end possible. |
| B2 | Third largest finance company, with long and successful experience. Prospects of rapidly expanding business favor continued dividend liberality. |
| A2 | Second largest maker metal containers. Good trade position. Long term prospects good but current supply shortage hampers progress. No change dividend probable. |
| A2 | Largest match manufacturer and with diversified output. Further growth likely. Dividend policies liberal. Stable earnings assure dividend. |
| B2 | Next to largest shoe manufacturer. Owns 500 stores. Excellent record stable earnings and dividends. Prospects good. Present rate should not change. |
| C3 | Diversified maker of hoists, dump bodies, trucks and boats. Further expansion likely. Modest net earnings hold dividends to conservative basis. |
| C2 | Leading and original producer safety razors. Distribution worldwide. Competition tends to hold down profits but conservative dividend appears safe. |
| C+2 | Operates more than 4000 buses on a nationwide scale, subject to ICC regulations. Tax relief should swell earnings. No change in dividend indicated. |
| A2 | Second largest factor glass container industry. Good trade position, strong finances and stable earnings. Further dividend liberality not unlikely. |
| C+2 | Third largest producer rayon filament yarn. Well integrated operations. Favorable earnings outlook suggests continuance of liberal dividend. |
| B2 | Dominant maker of shoes in the country. Huge deferred demand enhances prospects. Steady earnings warrant maintenance of dividend at current rate. |
| B2 | A leading manufacturer of oral antiseptics, especially Listerine. Diversification attained by output brushes and creams. Dividend secure. |
| B2 | Outstanding producer specialized packaged candies. Strong competitive position widens profit margins. Liberal dividends likely to continue. |
| C+2 | Owns 17 modern passenger-freight steamers plying from United States to Latin-America. Wide margin of earnings assures dividend maintenance. |
| B2 | Manufacturer of non-petroleum oils. Annual earnings variable but present conservative distributions likely to undergo no change. |
| A2 | Largest producer glass containers in country. Prospects above-average. Long stabilized earnings and dividend record promise continued distributions. |
| B2 | Dominant manufacturer mattresses and beds. Longer range outlook promising. Earnings and financial strength may warrant medium term dividend improvement. |
| B2 | Leading producer proprietaries and household remedies. Has good growth potentials. Firm trade position. Stable earnings. Present dividend well assured. |
| A2 | Largest grower and shipper of bananas, owning large fleet modern ships. Operations have long been profitable and further improvement likely. Dividend amply covered. |
| B2 | Earned $3.48 for 6 mos. to Dec. 31, '45. Higher dividend warranted but expansion plans may deter action. |
| B1 | Dominant factor in field and fully integrated. Has very large backlog orders. Prospective uptrend earnings may lead to improved distributions in 1946. |
| B2 | Leader in production of cold remedies. Sales are world-wide. Stable earnings and favorable outlook assure maintenance of dividend at present rate. |
| C+2 | Operates 432 retail drug stores, second largest chain. Tax relief should boost 1946 earnings. Current dividend seems sure to continue. |
| A2 | Produces about 60% of chewing gum used in the world. Longer range prospects enhance probability of earnings and dividend stability. |
| C+2 | Long established manufacturer refrigerating equipment. Erratic earnings record but longer term prospects bright. Steel strike might preclude interim dividends. |

licated.

# Opportunities...

## *for Income and Appreciation*

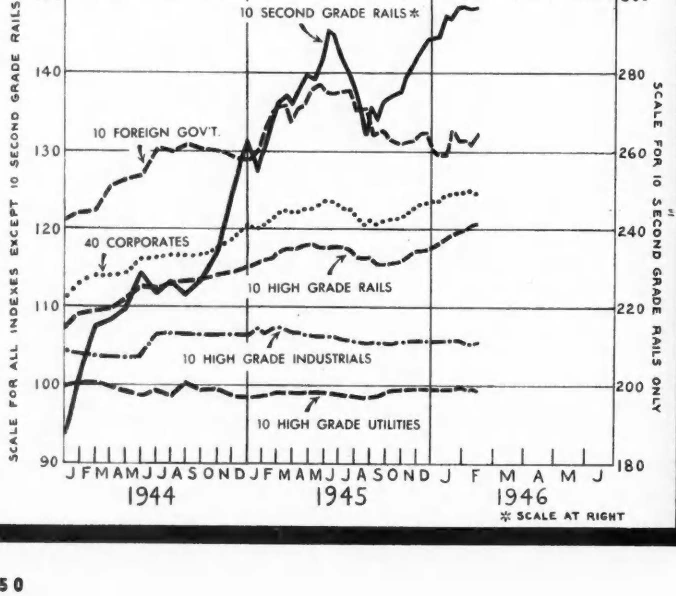
# IN BONDS And PREFERRED STOCKS

By JACKSON D. NORWOOD

THE MAGAZINE OF WALL STREET's index of bond prices showed the following changes during the period indicated:

| | On Feb. 9 | On Feb. 16 | |
|---|---|---|---|
| 40 Domestic Corporates | 125.0 | 124.9 | — .1 |
| 10 High Grade Rails | 120.7 | 120.9 | + .2 |
| 10 Second Grade Rails | 296.3 | 296.3 | —— |
| 10 High Grade Utilities | 99.7 | 99.6 | — .1 |
| 10 High Grade Industrials | 105.3 | 105.4 | + .1 |
| 10 Foreign Governments | 130.8 | 132.4 | +1.6 |

Subsequent to the compilation of the above index, the general level of bond prices has undergone moderate recession in the wake of stock market declines. Changes in the over-all index were brought about chiefly by the decline in the speculative rail group, including issues of both solvent and reorganization roads. These issues are, of course, more sensitive to stock market trends and less so to investment considerations. Sentiment with respect to secondary rail obligations, as expressed in the market action of these issues, has been sobered by recent figures revealing some sizeable declines in carloadings. Moreover the effects of reduced freight traffic on revenues will be accentuated to some extent by lighter loadings and shorter hauls than were normal under the pressure of wartime necessities a year ago.




Bond buyers who had hoped that the plans of the Treasury for taking care of March 1 maturities would perhaps give a hint of some modification in long standing policies were disappointed. That portion of the maturities to be retired with cash amounted to only 1 per cent of the total national debt. Moreover, for this purpose the Treasury will use cash previously borrowed. The Treasury and the Federal Reserve Board is at loggerheads on the wisdom of continuing low interest rates and permitting such a large portion of the outstanding obligations to be concentrated in the hands of banks. But reports from Washington indicate no likelihood of any significant revision in the near future.

Whereas previously it was thought likely that last year's large scale refunding operations would mark the end of the progressive reduction in corporate debt charges, it now appears that another new wave of refunding issues is in the making. Several large railroad issues marketed only about six months ago are due to be replaced by issues with 2½% and 2⅞% coupons. Recent strength in a long list of preferred stocks reflects not only the extent to which they are in demand by investors, but the growing scarcity of suitable investment mediums — both bonds and preferred issues. Investors holding such issues should keep close

watch on call prices, if possible losses are to be avoided.

**RAILROAD BONDS:** The number of railroad bond issues traded on the New York Stock Exchange is diminishing as reorganization plans are consummated for important defaulted systems. Most of these plans provide for the issuance of only two new issues to replace the larger number of outstanding defaulted ones. For instance, the Seaboard Airline Railway now has 20 issues of outstanding bonds and these will be replaced after April 1st by two new issues, namely, the 1st mortgage "A" 4s of 1996 and the general mortgage "A" 4½s of 2021. Consummation of the Seaboard Airline Railway plan will return to the security owners properties which have been in receivership since 1930. Several major railroad systems already have emerged from Court protection pursuant to reorganization plans. Moreover, proceedings have been carried to the final stages for several additional major systems. Reorganization plans for the Chicago, Indianapolis and Louisville Rwy., The Chicago & Alton R.R., St. Louis - San Francisco Rwy. and the Chicago, Rock Island & Pacific Rwy. are expected to be consummated within a few months.

***Suggestions for Current Investment Funds***

| Bonds: | Recent Price | Call Price | Current Yield |
|---|---|---|---|
| Amer. & For. Pwr. Deb. 5's, 2030 | 108 | 106 | 4.7% |
| Intl. Tel. & Tel. Deb. 5's, 1955 | 105½ | 105 | 4.7 |
| Lehigh Coal & Nav. S. F. 3½'s, 1970 | 105½ | 105 | 3.3 |
| N. Eng. Gas & Elec. Assn. Deb. 5's, 1950 | 100 | 100½ | 5.0 |
| N. Pacific Ref. & Imp. 5's, C, 2047 | 110 | 105* | 4.5 |
| Pittsburgh & W. Va., 1st 4½'s, 1958-60 | 100 | 102 | 4.5 |
| Southern Pacific Deb. 4½'s, 1981 | 107 | 110 | 4.2 |
| **Preferred Stocks:** | | | |
| Associated Dry Goods $7 2nd Pfd. | 136 | N.C. | 5.0 |
| Baldwin Locomotive $2.10 Pfd. | 42 | 40 | 5.0 |
| Barker Bros. 4½% ($50 Par) Pfd. | 54 | 55 | 4.1 |
| Columbia Gas & Elec. $6 Pfd. | 110 | 110 | 5.4 |
| Curtis Publishing $4 Prior Pfd. | 76 | 75 | 5.2 |
| Sharon Steel $5 Pfd. | 104 | 105 | 4.8 |
| Stokely-Van Camp $1 Prior Pfd. | 22 | 21 | 4.6 |

*—Not prior to July 1, 1952.

**A. E. STALEY MFG. CO.:** Stockholders of the cumulative preferred stock, $5 series, of this company are being offered to exchange these shares for new cumulative preference stock, $3.75 series, on a share for share basis plus a cash payment of $1.37½ per share exchange. The unexchanged $5 preferred stock will be called for redemption March 29th at $105 per share plus dividends of $1.37½ per share accrued from September 20, 1945. Any offering or sale of the $3.75 new preference stock by the underwriters prior to expiration of the exchange offer will be at $107 per share.

**KRESGE DEPARTMENT STORES, INC.:** This company has called the entire issue of its 4% cumulative convertible 1st preferred stock at $110 per share and accrued dividends, on April 1, 1946, at the Manufacturers Trust Co., New York City. Holders may present their certificates to the aforesaid bank at any time and receive payment therefor.

**ARMOUR & CO. CUM. INCOME DEBENTURE 4½s OF MAY 1, 1975:** In our issue of February 16, 1946, page 577, this bond was suggested for investment at 104½. Shortly after printing, the company announced that it was calling the entire issue at 104 and interest on March 4, 1946 at First National Bank, Chicago, or the Chase National Bank, New York City. Any holders of this issue may present same to either of the aforesaid banks at any time on or after February 7th and receive the redemption price and interest to March 4, 1946.

**VIRGINIA CAROLINA CHEMICAL CORP:** This company is about the fourth largest fertilizer producer. Around 80% of its sales are in the South and the principal customers are cotton and tobacco growers. Large phosphate rock deposits in Florida are held in reserve. On May 31, 1945, the company acquired by purchase for cash 99.335% of the outstanding capital stock and all of the outstanding 6% convertible debentures of the Phosphate Mining Co., the total cash expenditure requiring $2,845,068, all of which was supplied from the current working capital of the corporation. This acquisition of the Phosphate Mining Co. was to assure a continuing and economical supply of phosphate rock, one of the most important fertilizer raw materials. Most of the company's 37 plants, having a total annual capacity of 860,000 tons of finished fertilizer, are scattered through the South, although plants in Indiana, Ohio and Illinois supply dealers in the Mid-Western states.

The acquisition of the securities of the Phosphate Mining Co. is reflected on a consolidated basis in the corporation's consolidated balance sheet as of June 30, 1945. The company showed a good financial condition at that time, with total current assets of $18,696,389 as compared with total current liabilities of $3,454,637 a ratio of better than 5 to 1. Cash and government securities totaled $9,760,145 and, alone, were nearly three times total current liabilities. In addition to the $1,750,000 notes the company has 215,052 shares of 6% cumulative dividend participating preferred stock outstanding entitled to $105 per share plus accumulated dividends in the event of voluntary dissolution or liquidation, and 486,122 shares of common stock. Total assets of company were $33,385,844. Net current assets after deducting total current liabilities and notes payable to banks, amounted to $13,500,000 equivalent to approximately $63 per share of preferred stock and does not give any effect to property, plant and equipment which, after reserves for depletion and depreciation is carried on the company's balance sheet at $12,709,773. (*Turn to page* 671)

# Building Your Future Income

*EDITORIAL*

## SELF SATISFACTION

A RENOWNED SCIENTIST is quoted as saying that, "The moment you are satisfied with what you are doing, the concrete has begun to set in your head."

How very right he is.

You may justly feel that you are making every effort to do the best possible job, but once you arrive at a point where you feel that there is no further room for improvement, you are beginning to "sluff off"—whatever may be your forte. Then it is time to ask yourself if you can afford self-satisfaction and complacency in this age of intense competition—competition energized by ambition, ability and unceasing effort on the part of the other fellow.

This same scientist goes on to say that, "All research is 99.9% failure, but if you succeed once, you're in. The price of all progress is trouble—and success depends on how you handle trouble."

This creed, as much as anything could, tells the story of this scientist's rise to the top of his profession.

Adversity and recurring problems can be the spark-plugs which set one's thinking processes in motion. To overcome them brings the elation of victory and the rewards of success. That is real progress and progress is simply the measure of improvement, whether it is expressed in better mousetraps or successful atom smashing.

A continual striving for the best requires courage, faith and hard work, and these, not complacency and self satisfaction, are the vital ingredients of success and well being.

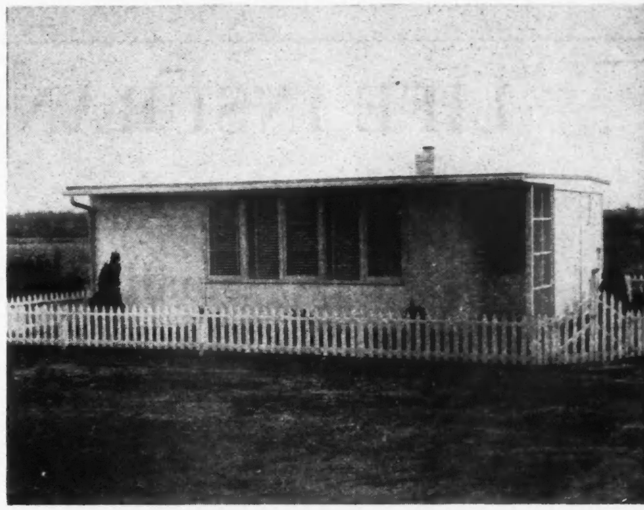
★ ★ ★

# *Pre-Fabricated* HOMES

## —A Solution to Veterans' Housing Needs

★ ★ ★

**By JOSEPH E. CUMMINGS**



*Bush Prefabricated Structure, Inc.*
**Government assistance will speed production and distribution of pre-fabricated houses**

THE MOST SERIOUS problem with which returing veterans are having to cope is their inability to find suitable living accomodations for their families—at a price which they can afford. The situation is not only fraught with grave economic consequences, but it is also one of sweeping social implications. For this reason any worthwhile plan for correcting the situation is worthy of serious consideration by Congress and State and local authorities, to say nothing of the building industry and its thousands of tributaries.

Housing Expediter, Wilson W. Wyatt has presented to President Truman a comprehensive plan for the construction of 2,700,000 low cost homes over the next 22 months. This plan is known as "The Veterans' Emergency Housing Program" and the details have been widely publicized—and criticized. Principal criticism can be summed up in the statement, "It can't be done". Even granted that the plan may fall short of its objective, its framework makes sense and nothing will be gained by tossing it aside as being too ambitious.

That phase of the plan which should be of particular interest to veterans outlines methods by which the home shortage could be substantially relieved by the erection of pre-fabricated dwellings.

### What Veterans Can Afford

Surveys conducted by the War Department at Separation Centers reveal that the majority of veterans expect to pay less than $50 a month for the rental or purchase of a home. Many veterans expressed a preference for renting rather than purchasing a home immediately. This means that emphasis on new construction must be given to homes costing $6,000 or less, including land, or renting for not more than $50 a month. Veterans, and their families will, of course, have priority for the purchase or rental of all new homes.

To meet veterans' needs Mr. Wyatt's plan envisages a large scale use of permanent pre-fabricated houses, and houses assembled on-site from prefabricated parts and materials. The goal for this year is 250,000 such houses while that for 1947 is 600,000. The magnitude of this aim can be measured against the fact that only 240,000 housing units of all types were built in 1945. But with Government assistance, Mr. Wyatt is of the opinion that they can be met.

### Speeding Production

From the standpoint of expediency, pre-fabricated homes have several factors in their favor. Skilled building labor, which is much less than the potential needs, need not be used in their manufacture or erection. Surplus plant facilities can be used for their manufacture and substitute materials can be used in place of those now in short supply.

To stimulate large scale production, it is proposed that the Government grant purchase-contracts to producers, and in that way insure greatly widened distribution. To qualify for a contract, producers will have to meet Government standards of safety and durability. Prices will be set at a maximum of $3,500 for a one-bedroom house plus about $500 for each additional bedroom. The producer will have to have formulated an effective plan for distribution and erection and must agree to produce a specified number of homes within the twelve months calendar period. The Government (*Please turn to page* 667)

# LIFE INSURANCE

## —a Vital Factor in a Small Business

By EDWIN A. MULLER

KEY MAN INSURANCE as a medium of the business man's type of insurance was recently discussed in this Magazine by me. Sole proprietorships and partnerships in which a large number of our returning servicemen will engage, will be the topic of our current article.

Whether this alliance involves the small business of a sole proprietorship or a small partnership, they all will have a greater tendency to prosper under the protective benefits of insurance of various kinds and particularly life insurance.

In establishing a business, adequate insurance of various types such as Fire Insurance, Compensation, Liability, Burglary and others, is necessary. These coverages insure the physical assets but the more important human asset, often neglected, can only be insured through Life Insurance.

The function of life insurance will be twofold. It will provide the money which together with a purchase and sale agreement in partnerships will enable the surviving partners or employees to take over the business. Likewise, in the event of the death of the sole proprietor it will capitalize his loss to his family.

### Life Insurance for Credit

An additional advantage will be that life insurance strengthens the financial structure of the business, particularly for the individual operating as a sole proprietor since it will be helpful in obtaining additional credit for expansion as his business develops. In negotiating a loan, even though the collateral is sufficient, the banker will sometimes require life insurance to support the loan. Of course, in sole proprietorships, the individual's personal services are essential in management of the business and life insurance would enable satisfactory administration of his estate, as well as permit the executor to sell the business on a value basis rather than through forced sale in the event of early death.

A small business such as a sole proprietorship has its success built around the efforts of the proprietor. He devotes all his energies as well as the major profits into creating a larger and more successful enterprise. Hence, any value available for the maintenance of his family in the absence of life insurance will be contingent on the selling price of the business as a result of a forced sale. Life insurance can capitalize the fair value of this business for the benefit of the individual's family.

A successful business whether it be a sole proprietorship or partnership usually reinvests a portion of the profits in expanding the business. If this is good procedure then it is also essential that a definite part of the profits be withdrawn and accumulated for each individual himself, as well as his family. By purchasing life insurance one earmarks such monies for this specific purpose and, what is more, it is accomplished under a definite and fixed plan. Hence, in the event of early death the life insurance provides the ready cash immediately. Moreover, these proceeds are available without any income tax whatsoever. Finally, the policy proceeds are likewise free from the claims of creditors of the insured. In effect, the accumulation and investment of profits in life insurance sets up preferred assets for the benefit of the insured himself, as well as his family.

### Small Partnerships

Let us consider small partnerships. In the laws of most states a partnership ceases to function upon the death of one of the partners. The partnership is really automatically terminated. In addition, the heirs of the deceased will be as anxious for their share as the creditors. Since the surviving partner cannot continue the business and should liquidation be necessary, such liquidation might result in a drastic shrinkage of the financial value of the partnership.

At best, the problem facing the surviving partner or partners under liquidation is certainly not one to be envied. As a matter of fact the choice between liquidating and re-organization is not their's to make. It actually rests with the heirs, since any refusal on their part to agree to any proposed re-organization would require liquidation of the business.

If re-organization is decided upon for the future continuance of the business subject to agreement by the heirs, it may be necessary to take the heirs in as new partners, or a (*Please turn to page* 670)

# *Borrowing* For a Small Business

By WILLIAM A. HOWELL

IN THE PRECEDING issue the subject of bank credit and loans, and the important role they play in operating a small business, were discussed. The various types of small loans available to the small business will be the subject of this discussion.

In the main there are six types of loans which may be effectively employed:

Character Loans
Term Loans
Installment Loans
Accounts Receivable Loans
Loans Secured by Warehouse Stocks
Equipment Loans.

A Character Loan may be granted to a borrower without collaterial and is based chiefly on the banker's estimation of the applicant's general business acumen, integrity and good character. This type of loan is usually the basis for a general line of credit which may be extended to you by your bank. By establishing such a line of credit you are able to meet your short-term seasonal requirements, and may even have several loans outstanding within the maximum amount previously agreed upon.

A Term Loan is a long term loan running from one year to perhaps 10 or 15 years and usually provides for amortization out of earnings. These loans until recently were not generally available to the small business, but banks are now engaged in promoting this type of borrowing.

**Other Types of Loans**

Installment Loans are granted to small businessmen and professional people in amounts ranging from $100 to $1,000, possibly larger under some conditions. They are repayable in monthly installments. Usually your own signature is sufficient, or in some cases a co-maker may be required. These loans also may be arranged against regular business collateral. As a general policy, try to avoid having your wife sign a note or offering your home or life insurance policy as collateral.

Loans on Accounts Receivable are made on two bases: notification and non-notification. On the latter, the bank does not tell your debtors about the loan, whereas it does on the former. In fact, some states require notification. Notes and accounts receivable are pledged as security.

Suppose you have stock or inventory which you have stored in a commercial warehouse. If necessary, you can pledge the warehouse receipt with your bank for a loan. If the goods are stored on your own premises, known as a "field warehouse" then it is necessary to have a commercial warehouse, or some third party, take formal custody of the goods and issue a receipt, acceptable to the bank.

Equipment loans may be made in two ways. If you are engaged in making durable equipment it may be possible for you to arrange a loan on installment accounts receivable. If, on the other hand, you are buying equipment you should be able to finance the purchase through a bank loan secured by a lien on the equipment.

Other types of established loans include chattel mortgages, (which is very similar to an equipment loan), mortgage loans on improved property, loans using stocks and bonds as security and loans endorsed or guaranteed by other responsible individuals or companies.

In addition to your local banker there are other sources to which a small businessman may turn to meet his financial needs. Some of these will be discussed in an early issue.

Data for the foregoing discussion was provided by United States Department of Commerce which also publishes a valuable guide, "Credit Sources for Small Business" obtainable for 15 cents.


**Banks are ready to help the small business with advice and credit**
*Photo by INP*

# FOR PROFIT AND INCOME

## Cigarette Stocks

According to one of this department's grapevines, cigarette manufacturers feel more hopeful about their chances of getting some price relief from OPA. This is partly due to the "bulge" put in the price line by the Administration, but mainly to the thought that OPA will strive to "act reasonable" in order to make Congress more receptive to extending its powers after June 30. Cigarette profits are far under the 1936-1939 average, despite record sales, but heretofore the OPA has been indifferent to that fact. Even a price boost of 25 cents a thousand cigarettes could make a wide difference in share earnings of most of these companies. Although it may be coming, we would not bank on it. We note that Philip Morris has rallied very little, and that recovery in the others has not exceeded technical proportions. So far, in short, they are not acting as if price relief were in the bag.

## Liquors Rally Well

Chances are that the recent sharp set-back in liquor stocks was due to technical reasons mainly, since they had enjoyed a phenomenal advance since the end of the war. At this writing most of them reflect apparently good demand. Evidently many buyers welcomed price concessions in order to get in or take on more stock. The industry is one of those which seems almost certain to make handsome profits over the next year or more, having no significant labor troubles or OPA problems. We hear that the next interim reports of National Distillers and Distillers-Seagrams will be something to behold. Of course, they are not unique. The same conditions apply to Schenley—if anything, more so. It is improbable that you have seen the last of the Schenley stock splits; and a little bird has whispered to us that splits are contemplated by National and Distillers-Seagrams.

## Export Boom

The long-term foreign trade prospects are complicated by many "ifs" and "buts." Let the long-haired economists talk about that. For the next two to three years, the effective foreign demand for American durable goods—quite aside from the "relief" stuff—probably will exceed our ability to supply, despite wide variations in the buying power (in dollars or equivalent) of the countries which are clamoring for goods. Shortage of goods is the central reality throughout the world. From present indications, U. S. commercial exports should exceed $5 billion this year, the largest figure since 1929. Industries with a

**INCREASE IN EARNINGS SHOWN IN RECENT REPORTS**

| | | 1945 | 1944 |
|---|---|---|---|
| American News | Year Dec. 31 | $6.58 | $5.88 |
| Elastic Stop Nut | Year Nov. 30 | 1.79 | 1.76 |
| General Foods | Year Dec. 31 | 2.36 | 2.14 |
| Industrial Rayon | Year Dec. 31 | 2.62 | 1.85 |
| Iron Fireman Mfg. | Year Dec. 31 | 2.16 | 1.86 |
| Owens-Illinois Glass | Year Dec. 31 | 3.30 | 3.06 |
| People's Gas, Light & Coke | Year Dec. 31 | 5.47 | 4.67 |
| Spicer Mfg. | Year Aug. 31 | 11.24 | 6.55 |
| Texas Gulf Sulphur | Year Dec. 31 | 2.60 | 2.50 |
| Twin City Rapid Transit | Year Dec. 31 | 3.27 | 2.83 |

promising stake in export trade include office equipment, farm machinery, railroad equipment, oil-field equipment, chemicals, motion pictures, machine tools, heavy industrial machinery, electrical equipment, motor trucks, passenger automobiles. A num- of these can not fully meet our own home demands for some time to come.

### Speaking of Booms

Speaking of the coming export boom reminds us that in every respect save industrial production our domestic boom seems to be getting boomier right along uninhibited by strikes, weather or anything else. For the latest week reported, department store trade was up 25% from a year ago on a national average. Pittsburgh, center of the steel strike, was up 28%. Detroit, home of strike-bound General Motors, was up 17%. With so many things scarce or non-available, one wonders what the stores are selling. Florida is up to its ears in winter-vacation spenders, with prices which make the 1926-1929 boom look like a piker. To round out the picture, we see and hear that black-market operations are now more widespread than at any time during the war. Peace is wonderful. Or is it?

### Supply and Demond

There are a couple of reminders that sellers' markets don't last forever, and that supply has a more dynamic effect on prices and profit-margins than does the amount of spendable cash in cussumers' pockets. They are gasoline, in which prices are weak because of over-supply; and cigarettes, wherein retailers are undercutting ceiling prices in an effort to boost sales by the carton, even as the manufacturers operate on a price-cost squeeze. Frankly, we'd like to see some more of this. We look forward to the day when the butcher and grocer will courteously solicit our trade, and are able to offer fair value for our money. That day will come. Seriously, it is late in the day to be buying stocks of companies which, while doing fine now, have never fared too well under normal competition. For normal competition is not too far around the corner, and it will be more than "normal" in many lines.

### Cup and Lip

Look out for the slip between cup and lip, to paraphrase an old adage. We are thinking about the beautiful earnings which can be forecast for a number of lines this year. Perhaps none is more clear-cut than the case of most branches of retail trade, as we have said before. However, statistical projections, no matter how reasonable they seem on today's facts and indicated trends, can not allow for all contingencies. The point is that when earnings take a spectacular jump, one interest or another most likely will "horn in" on them. There is labor, for instance, now unionized in most lines and well aware of what the profits are. Then there is the OPA, confronted with higher manufacturing costs, anxious to hold down retail prices, and very probably eyeing merchandising profits with a notion of forcing some more cost-absorption via reduced mark-ups on hard goods. We have not changed our bullish view of the 1946 retail profit outlook. In any event, earnings will be greatly better than last year—but, as one merchant remarks, estimates on a straight statistical basis are maybe "too good to be true." Then, too, the long-run effect of fat profits inevitably is to increase competition. Some keen analysts suspect that retail stocks may make their bull market high this year, but doubt that they have yet made it.

### Insider Selling

Insiders have been selling stocks on balance, according to the SEC reports, ever since this information became available. Often there are estate-planning reasons, or other reasons, apart from any judgment on the outlook for the particular company or the general market. However, when insiders sell a major portion of their total holdings of speculative stocks in one month, it is time for the outside public to look out. Stocks in which the latest SEC reports show significant insider selling are Symington-Gould, American Radiator, Aviation Corp., Coty International, Rayonier, Graham-Paige, Blaw-Knox, Callahan Zinc Lead, Robert Gair, Manhattan Shirt, Murray Corp., Revere Copper & Brass, and Stewart-Warner.

### Acting Well

Stocks of medium to good grade which are currently acting better than the general market include: American Brake Shoe, American Viscose, Armstrong Cork, Bond Stores, Bristol-Myers, Commercial Credit, Chesapeake & Ohio, Container Corp., Goodrich, Deere, Montgomery Ward, Paramount, St. Joseph Lead, Thompson Products and U. S. Pipe & Foundry.

### Downward Revision

First half-year earnings of most railroads, especially the

*(Please turn to page 672)*

**DECLINE IN EARNINGS SHOWN IN RECENT REPORTS**

| | | 1945 | 1944 |
|---|---|---|---|
| Atlantic Coast Line R.R. | Year Dec. 31 | $6.70 | $19.54 |
| Buckeye Pipe Line | Year Dec. 31 | .82 | 1.00 |
| Checker Cab Mfg. | Year Dec. 31 | 1.15 | 1.20 |
| Chicago Mail Order | Year Dec. 31 | 1.58 | 1.85 |
| Commercial Credit | Year Dec. 31 | 2.40 | 2.79 |
| Fruit of the Loom | Year Dec. 31 | 1.99 | 2.42 |
| Mohawk Carpet Mills | Year Dec. 31 | 1.91 | 2.33 |
| Plymouth Oil | Year Dec. 31 | 1.65 | 2.06 |
| Raybestos-Manhattan | Year Dec. 31 | 2.44 | 2.67 |
| Republic Steel | Year Dec. 31 | 1.36 | 1.44 |

# Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

### Mathieson Alkali Works

*Will you please explain the reason for the drop in earnings of Mathieson Alkali Works for 1945? I have 100 shares of the stock. Shall I hold or sell?*

*E. R., Jamestown, N. Y.*

The Mathieson Alkali Works devoted half of its construction expenditures last year toward expanding facilities for producing dry ice and HTH products (High Test Hypochlorides) according to the company's annual report which was made public recently.

Plant property at the end of the last year totaled $39,681,534, as compared with $38,718,904 at the end of the previous year, showing a net increase of $962,629 after deducting retirement made necessary by renewals during the year. Company plans to double the capacity of sodium chloride plant. No expenditures have as yet been made for this purpose owing to the present scarcity of necessary material.

Net earnings for the company for the year 1945 were $1,148,631, or $1.19 per share, as against $1.40 per share on the same number of shares in the preceding year.

The decline in per share earnings on the common stock last year was due largely to the inclusion in 1944 earnings of a non-recurring income item amounting to $250,000 covering the sale of foreign patents to a foreign corporation. After taxes, the profit, representing a capital gain on the sale, was equivalent to 22½¢ per share on the common stock. If this item is eliminated, the earnings for 1945 were somewhat better than in the preceding year.

Sales last year amounted to $19,590,256, as compared with $18,379,926 in 1944, showing an increase of $1,210,330. However, this increase has been largely offset by increased wages and material costs and in increased replacement expenses.

The company has no reconversion problems and is starting the new year with bright outlook for the future.

Balance sheet as of December 31st 1945 showed total current assets of $12,636,780 and total current liabilities of $2,307,378, leaving net current assets of $10,329,402.

In view of favorable prospects, we recommend retention.

### American Cable & Radio Corporation

*Please furnish report on American Cable & Radio. I am enclosing "stamped" envelope for your reply.*

*D. F., Mobile, Ala.*

American Cable & Radio Corp.: This company holds substantially all the stock of All America Cables & Radio, Inc., Commercial Cable Co., Mackay Radio & Telegraph Co. and Sociedad Anonima Radio Argentina, companies furnishing international telegraph services by cable or radio, or both. Their policies and activities are coordinated by American Cable & Radio Corp., and together they constitute an important international telegraph system under American ownership. The international cable facilities, comprising approximately 47,000 nautical miles of submarine cable, with attendant land line connections are owned and operated between the United States, Central America, South America, and the West Indies by All America Cables & Radio, Inc., and between the United States, Canada, Newfoundland, Great Britain, France and the Azores by the Commercial Cable Co. Mackay Radio now operates 38 international circuits from New York and San Francisco.

The year 1944 marked a definite improvement in the consolidated financial condition of the company and its subsidiaries. As of December 31, 1944, it showed total current assets of $15,902,581 as compared with total current liabilities of $4,301,863, a ratio of better than 3 for 1. Cash and U. S. Treasury certificates of indebtedness, alone, totaled $10,461,324 or over twice total current liabilities. Plants, property and equipment, etc., were carried at $61,787,129 with a reserve for depreciation and amortization of $39,250,460. Total assets amounted to $41,020,151. All of the funded debt and bank loans of All America Corp. and Commercial-Mackay Corp., subsidiary holding companies were retired during the year. At the end of 1943 long

(*Please turn to page 675*)

# Keeping Abreast of Industrial and Company News

While most steel plants in the country were strike-bound, says an official of American Rolling Mill Co., January production records of his Middletown plant smashed all wartime records. True collective bargaining was accountable for the feat. Shows it can be done.

But with production at a rate higher than the best prewar year, and orders satisfactory, Niles-Bement-Pond Co. has deferred its quarterly dividend. According to C. W. Deeds, president, frozen ceiling prices and mounting costs have brought too tight a squeeze.

Similar reasons plus strikes are cited by H. N. Mallon, president of Dresser Industries, Inc. in explaining the dividend deferment by this concern. Mr. Mallon predicts that the margin between operating costs and selling prices may be further reduced.

On the optimistic side of the fence is International Paper Co., in announcing a 50 cents quarterly dividend on its common, first payment since 1930 on its equity issue. Debt redemptions have been heavy and retirement of $10 million 5% preferred will slice senior charges by $500,000 annually.

To get production back to normal, in the view of Benjamin F. Fairless, president United States Steel Corporation, about two weeks time will be required. Furthermore, his hopes are high that tonnage of steel produced by his company this year may still reach a record level, possibly nearing 18 million tons. With the price raise, Big Steel may yet give a good account of itself earningswise, although Mr. Fairless is silent on this point.

Kurtis R. Froedtert, president of the Froedtert Grain and Malting Co., largest of its kind in the world, looks for both domestic and export sales to expand. In support of this faith, the company plans to spend over $2.25 million for additional facilities.

According to the Securities and Exchange Commission, net working capital of American corporations exclusive of banks and insurance companies, reached a record high of $50.9 billion in the third quarter of last year. Retained earnings and tax refunds brought an increase of $2.9 billion largest in history. Trends for the final quarter will be interesting when disclosed

All-time record January sales by retail trade, support estimates that total volume for the year may soar to $80 billion. As year-end inventories were at bottom, the month's inflow of consumer goods must have been far greater than realized to achieve the record.

Fact is that the first trickle of consumer durables since before the war was mounting impressively a trend certain of interruption by the strikes. But near-term potentials for the aluminum industry were highlighted by dozens of shining new items appearing upon retailers shelves.

Wages lost by striking workers in the steel industry, reports the American Iron and Steel Institute, will come close to $80 million, not including at least $20 million more lost by workers in other industries made idle by the steel strike.

In 26 days of the strike, the steel industry suffered a shrinkage of 962,000 tons in output, equal to requirements for more than 56,000 automobiles or 8.5 million refrigerators. And due to strike conditions, the Aluminum Cooking Utensils Co. could not make 1 million pots and pans.

Willys Overland Co. is overlooking no bets in seeking markets for its new civilian jeep. Following a 25,000 mile trip, the company's sales manager claims to have established distributors in 70 foreign countries.

In a sudden display of generosity, the Office of Price Administration annnounces that price controls will be removed from silk stockings, handkerchiefs and gloves. Too bad they didn't include dinosaurs.

Warming up an airplane engine on a cold day sometimes requires hours in sub-zero weather. Now comes the Texas Co. with a miracle fuel which can do the trick in 6 seconds, even in the chilliest Arctic zones.

Aviation Corporation continues to implement diversification plans. Latest move is buy a 40% interest in Frozen Food Products Corp. A 3-foot home freezer developed by F.F.P.C. will be made in a plant of the parent concern.

Wartime deterioration of teeth throughout the world points to glowing potentials for makers of dental equipment. Even Japan will be a large buyer of such equipment, according to reports. S. S. White Dental Mfg. Co. expects current record demand to last for several years.

Canada looks good to American Brake Shoe Co. This concern has recently bought out a Canadian producer of manganese and alloy steel castings, known as the Joliet Steel Co., Ltd.

Sun Chemical Corporation (formerly General Printing Ink Co.) is going in for paints on the side. Acquisition of C. A. Willey Co. will enable it to produce paints, varnishes and enamels for the automotive and transportation industries.

Potentials for rapid economic recovery after strikes subside are excellent, according to the Committee for Economic Development. Premise is that deferred demand has swelled more than ever during the strife and management efficiency will repeat its early reconversion miracle.

Kimpreg, the war-born Kimberly Clark Corporation product, provides an entirely new material for the manufacture of boats and railroad cars. Plywood hot pressed with plastic does the trick. The newcomer resists moisture, chemicals, vermin and mold.

Imports of wartime scarcities are making up for lost time in several categories. For one, the largest tea shipment ever to arrive on one ship is now in distribution. 4.5 million pounds of Indian and Ceylon teas comprised the record cargo.

The textile industry finds a tremendous outlet in rubber manufacturers. B. F. Goodrich Co. alone expects to require 75 million pounds of textiles during 1946, or about 27% greater than in any peacetime year.

Reynolds International Pen Co., which started business some five months ago with $26,000 capital, has since produced 1.5 million ball-boint pens, and gross retail sales have totaled $18.5 million. Take note, prophets that our economic expansion has passed the peak.

# ★ The Business Analyst

## SUMMARY

**MONEY AND CREDIT**—Federal tax collections last year totaled $43 billion, a new high record and $1.2 billion more than in 1944. Budget estimate for fiscal 1947 looks for expenditures of $35.8 billion compared with $67.2 billion in fiscal 1946; net receipts of $31.5 billion, against $38.6 billion; and a deficit of only $4.3 billion, against $28.6 billion. A reduction of $4.4 billion in the national debt is planned for fiscal 1947, compared with an estimated increase of $15.8 billion in fiscal 1946.

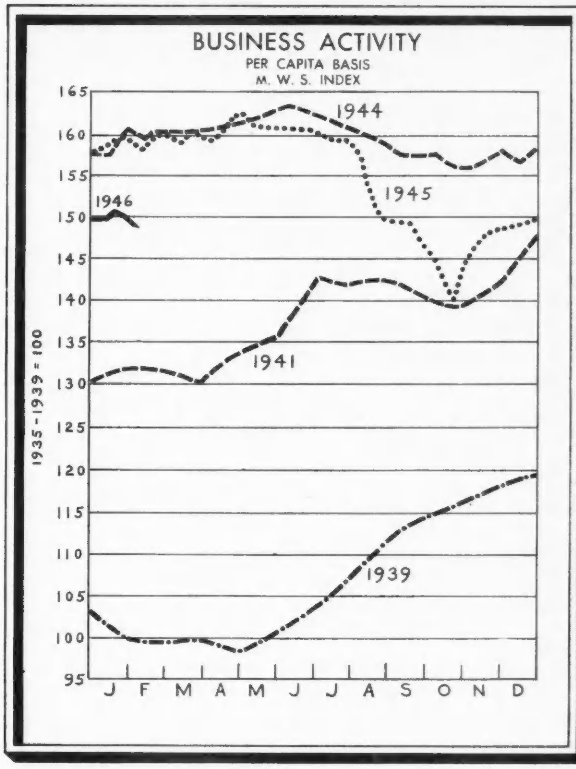
**TRADE**—Department store sales in week ended Feb. 9 leaped to 25% above last year, making an increase of 15% for the year to date. Stores now enjoy record earnings; but lay plans to meet keen competition when merchandise becomes more plentiful.

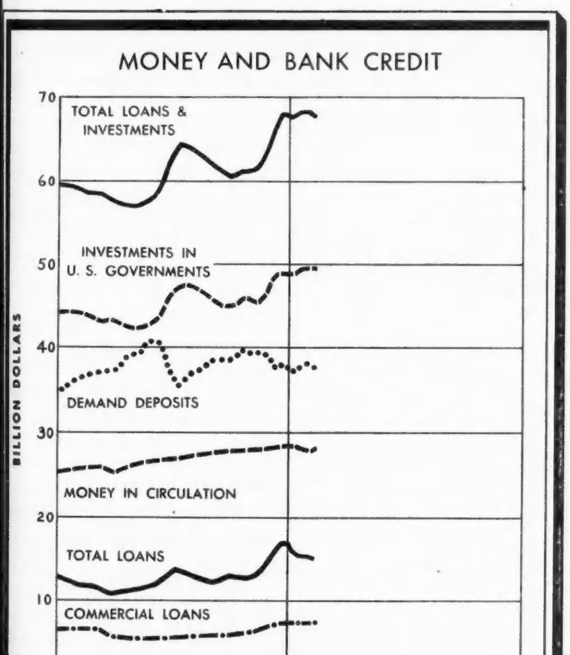
**INDUSTRY**—Strikes are being settled by conceding inflationary price increases. Work stoppages are causing production losses of around half a billion dollars a week, and have brought business activity down to 6% below last year.

**COMMODITIES**—Cotton figures soar to a 22-year high. Farmers demand rise in ceiling prices to compensate for expected higher costs in consequence of wage and price "bulge".

* *

Four weeks of the just settled steel strike caused a 2% recession in **Business Activity** to a level of 6% below last year at this time. It will be two weeks before steel production can again be brought up to normal. Meanwhile strikes now in progress in various industries have been costing the country around $0.5 billion weekly in the form of suspended production of goods and services.




* *

**Income Payments** to individuals last year, however, reached a new all-time high of $160.7 billion, compared with $156.8 billion in 1944. People have enough money tucked away to tide them over a long period of idleness, and they are spending lavishly now, fearing that prices will be higher later on. **Department Store Sales** in the week ended Feb. 9 soared to 25% above last year, making a cumulative increase of 15% for the year to date. Requirements of returning veterans are also helping to boost sales.

* *

With volume of sales expanding rapidly over the past few years, **Retail Store Profits** are naturally at record heights, and still expanding, despite perennial complaints that they can not absorb price increases. But farsighted store executives know this can not last indefinitely, and some of the largest stores are already engaging experts to work out means of meeting the coming keen competition when merchandise shortages shall have given way to surpluses.

* *

The stock market, which usually has an uncanny way of discounting the future, is already hinting at this in the contrasting behavior of the department store group component of our **Common Stock Index**, this year as

(Please turn to following page)

# Inflation Factors

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor |
|---|---|---|---|---|---|
| **MILITARY EXPENDITURE (tf) $b** | Feb. 13 | 0.74 | 0.26 | 1.69 | 0.43 |
| Cumulative from Mid-1940 | Feb. 13 | 328.0 | 327.2 | 255.2 | 14.3 |
| **FEDERAL GROSS DEBT—$b** | Feb. 13 | 278.9 | 278.8 | 233.1 | 55.2 |
| **MONEY SUPPLY—$b** | | | | | |
| Demand Deposits—101 Cities | Feb. 13 | 37.5 | 37.8 | 36.3 | 24.3 |
| Currency in Circulation | Feb. 13 | 28.0 | 27.9 | 25.5 | 10.7 |
| **BANK DEBITS—13-Week Avge.** | | | | | |
| New York City—$b | Feb. 13 | 7.72 | 7.71 | 6.97 | 3.92 |
| 100 Other Cities—$b | Feb. 13 | 8.49 | 8.49 | 8.34 | 5.57 |
| **INCOME PAYMENTS—$b (cd)** | Dec. | 14.25 | 13.08 | 14.41 | 8.11 |
| Salaries & Wages (cd) | Dec. | 8.49 | 8.54 | 9.65 | 5.56 |
| Interest & Dividends (cd) | Dec. | 2.06 | 0.54 | 1.83 | 0.55 |
| Farm Marketing Income (ag) | Dec. | 1.77 | 2.21 | 1.70 | 1.21 |
| Includ'g Govt. Payments (ag) | Dec. | 1.79 | 2.25 | 1.75 | 1.28 |
| **CIVILIAN EMPLOYMENT (cb) m** | Jan. | 51.4 | 51.4 | 51.6 | 52.6 |
| Agricultural Employment (cb) | Jan. | 6.8 | 7.2 | 7.6 | 8.9 |
| Employees, Manufacturing (lb) | Dec. | 11.9 | 11.9 | 15.6 | 13.6 |
| Employees, Government (lb) | Dec. | 5.5 | 5.6 | 6.2 | 4.5 |
| **UNEMPLOYMENT (cb) m** | Jan. | 2.3 | 2.0 | 0.7 | 3.4 |
| **FACTORY EMPLOYMENT (ib4)** | Dec. | 121 | 122 | 163 | 147 |
| Durable Goods | Dec. | 134 | 137 | 220 | 175 |
| Non-Durable Goods | Dec. | 111 | 110 | 119 | 123 |
| **FACTORY PAYROLLS (lb)4** | Nov. | 213 | 213 | 332 | 198 |
| **FACTORY HOURS & WAGES (lb)** | | | | | |
| Weekly Hours | Nov. | 41.3 | 41.7 | 45.3 | 40.3 |
| Hourly Wage (cents) | Nov. | 99.0 | 98.5 | 103.5 | 78.1 |
| Weekly Wage ($) | Nov. | 40.98 | 41.04 | 46.85 | 31.79 |
| **PRICES—Wholesale (lb2)** | Feb. 9 | 107.1 | 106.8 | 104.9 | 92.2 |
| Retail (cdlb) | Dec. | 143.0 | 142.2 | 139.8 | 116.1 |
| **COST OF LIVING (lb3)** | Dec. | 129.9 | 129.3 | 127.0 | 110.2 |
| Food | Dec. | 141.4 | 140.1 | 137.4 | 113.1 |
| Clothing | Dec. | 149.4 | 148.7 | 142.8 | 113.8 |
| Rent | Dec. | 108.3 | 108.3 | 108.3 | 107.8 |
| **RETAIL TRADE $b** | | | | | |
| Retail Store Sales (cd) | Dec. | 8.28 | 7.04 | 7.43 | 4.72 |
| Durable Goods | Dec. | 1.25 | 1.10 | 1.00 | 1.14 |
| Non-Durable Goods | Dec. | 7.03 | 5.94 | 6.43 | 3.58 |
| Dep't Store Sales (mrb) | Dec. | 0.96 | 0.74 | 0.88 | 0.40 |
| Retail Sales Credit, End Mo. (rb2) | Dec. | 2.83 | 2.66 | 2.69 | 5.46 |
| **MANUFACTURERS'** | | | | | |
| New Orders (cd2)—Total | Nov. | 188 | 179 | 223 | 181 |
| Durable Goods | Nov. | 179 | 165 | 232 | 221 |
| Non-Durable Goods | Nov. | 193 | 188 | 218 | 157 |
| Shipment (cd2)—Total | Nov. | 204 | 205 | 273 | 183 |
| Durable Goods | Nov. | 208 | 206 | 374 | 220 |
| Non-Durable Goods | Nov. | 202 | 204 | 203 | 155 |
| **BUSINESS INVENTORIES, End Mo.** | | | | | |
| Total (cd)—$b | Nov. | 27.6 | 27.5 | 27.6 | 26.7 |
| Manufacturers' | Nov. | 16.6 | 16.6 | 17.0 | 15.2 |
| Wholesalers' | Nov. | 4.2 | 4.1 | 4.0 | 4.6 |
| Retailers' | Nov. | 6.8 | 6.8 | 6.6 | 7.2 |
| Dept. Store Stocks (rb)—I | Nov. | 150 | 161 | 144 | 139 |
| **BUSINESS ACTIVITY—I—pc** | Feb. 9 | 148.3 | 148.8 | 158.4 | 141.8 |
| (M. W. S.)—I—np | Feb. 9 | 160.9 | 161.3 | 169.9 | 146.5 |
| **INDUSTRIAL PROD. (rb)—I—np** | Dec. | 164 | 168 | 232 | 174 |
| Mining | Dec. | 134 | 137 | 137 | 133 |
| Durable Goods, Mfr. | Dec. | 186 | 192 | 343 | 215 |
| Non-Durable Goods, Mfr. | Dec. | 156 | 158 | 173 | 141 |

## PRESENT POSITION AND OUTLOOK

(Continued from page 661)

compared with last year. Last year department store stocks advanced more than twice as fast as the combined average of all common stocks. This year, up to present writing, department store stocks, though establishing a new all-time high, have not risen quite as much as the rest of the market.

* *

While on the subject of our Common Stock Index, it may not be amiss to mention that, with the current issue, we begin publication of two new component group indexes—**Coal Mining** and **Realty.** Both groups are still below their 1947 highs; but the Realty Group has staged a greater advance (45%) this year than any of the other 45 sub-groups. Realty interests have evidently not abandoned hope that rent ceilings will be lifted in time to make a killing before vacancies again return to depress property values.

* *

The Census Bureau estimates **Unemployment** in the week ended Jan. 12 at 2,290,000—340,000 more than a month earlier. This is 900,000 less that what was regarded as a very low estimate made here in our issue of Sept. 1, and a far cry from the eight million predicted at that time by alarmists with a social axe to grind.

* *

Long range forecasting by partisan "experts" has proved conspicuously wide of the mark in other fields of human activity, and is bound to mess things up badly if used as a basis for **Government Planning.** The Administration's encouragement of demands for higher wages, for example, was prompted by such exaggerated estimates of post-war unemployment. The consequence has been an added push to the already well launched **Inflationary Spiral.**

* *

**Wage Increases** are compelling the Government to allow compensatory price increases and this will spread from one industry to another, with reconversion delayed and scarcities heightened by plant shutdowns pending settlement of disputes. By the time one round of wage advances is completed another vicious cycle of renewed wage demands will begin, based upon the higher living costs that will result from the first round of wage and price increases.

* *

Perceiving that higher prices are inevitable, producers (including farmers) withhold goods from the market to reap bigger profits. The whole economy becomes oriented toward **Speculation,** which feeds on rising prices, instead

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor |
|---|---|---|---|---|---|
| **CARLOADINGS—t—Total** | Feb. 9 | 713 | 723 | 756 | 833 |
| Manufacturers & Miscellaneous | Feb. 9 | 288 | 293 | 364 | 379 |
| Mdse. L. C. L. | Feb. 9 | 120 | 119 | 97 | 156 |
| Grain | Feb. 9 | 51 | 54 | 41 | 43 |
| **ELEC. POWER Output (Kw.H.)m** | Feb. 9 | 3,983 | 3,983 | 4,505 | 3,267 |
| **SOFT COAL, Prod. (st) m** | Feb. 9 | 12.4 | 12.6 | 12.3 | 10.8 |
| Cumulative from Jan. 1 | Feb. 9 | 70.6 | 58.2 | 69.9 | 446 |
| Stocks, End Mo. | Dec. 1 | 45.7 | 48.9 | 57.2 | 61.8 |
| **PETROLEUM—(bbls.) m** | | | | | |
| Crude Output, Daily | Feb. 9 | 4.7 | 4.6 | 4.7 | 4.1 |
| Gasoline Stocks | Feb. 9 | 104.0 | 103.3 | 93.4 | 87.8 |
| Fuel Oil Stocks | Feb. 9 | 39.6 | 39.1 | 46.7 | 94.1 |
| Heating Oil Stocks | Feb. 9 | 28.3 | 28.9 | 29.5 | 54.8 |
| **LUMBER, Prod. (bd. ft.) m** | Feb. 9 | 365 | 343 | 508 | 632 |
| Stocks, End Mo. (b.d. ft.) b | Jan. | 3.2 | 2.9 | 3.5 | 12.6 |
| **STEEL INGOT PROD. (st.) m** | Dec. | 6.08 | 6.20 | 7.37 | 6.96 |
| Cumulative from Jan. 1 | Dec. | 79.7 | 73.7 | 89.1 | 74.69 |
| **ENGINEERING CONSTRUCTION AWARDS (en) $m** | Feb. 14 | 44.1 | 55.5 | 43.9 | 93.5 |
| Cumulative from Jan. 1 | Feb. 14 | 448 | 404 | 181 | 5,692 |
| **MISCELLANEOUS** | | | | | |
| Paperboard, New Orders (st) t | Feb. 9 | 169 | 179 | 150 | 165 |
| Hosiery Production (prs.) m | Dec. | 120 | 137 | 124 | 150 |
| Footwear Production (prs.) m | Nov. | 40.0 | 42.2 | 39.1 | 34.8 |
| Hide & Lthr. Stks., End Mo. (hds.)m | Nov. | 12.9 | 13.0 | 11.7 | 14.0 |
| Whiskey, Stks., End Mo. (tax Gals.) m | Dec. | 341 | 331 | 317 | 506 |
| Do.,........Domestics sales | Dec. | 4.8 | 6.3 | 5.8 | 8.1 |

### PRESENT POSITION AND OUTLOOK

of production which eventually would stop the spiralling of wages and prices.

* *

Though the steel strike has been settled for the time being by the inevitable wage price compromise, business interests in other lines are still in the dark as to how the new policy will fit into their problems. About the only certainty is that Government red tape and delays will be multiplied, with corresponding delays in reaching capacity output.

* *

The Commerce Department reports that cash **Dividends** disbursed in December amounted to 746 million—7.2% under December, 1944. For all of 1945, dividends totaled $3,795 million—slightly more than the $3,782 million paid in 1944.

* *

It is noteworthy in connection with C.I.O. insistence upon squeezing corporate profits that cash dividends constituted only 2.4% of all income received by people in this country last year. Omission of dividends altogether would thus permit only a minor reduction in the price level; but it would dry up the supply of private **Venture Capital** which has been the source of our phenomenal peace-time expansion in production and employment.

Ag—Agriculture Dep't. B—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonably adjusted Index. 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Streeet, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

| No. of Issues (1925 Close—100) | 1946 Indexes High | Low | Feb. 9 | Feb. 16 |
|---|---|---|---|---|
| 300 COMBINED AVERAGE | 186.2 | 164.5 | 180.8 | 185.7 |
| 4 Agricultural Implements | 236.7 | 204.9 | 227.6 | 236.7H |
| 11 Aircraft (1927 Cl.—100) | 284.4 | 247.4 | 271.4 | 283.9 |
| 6 Air Lines (1934 Cl.—100) | 1208.6 | 1071.4 | 1071.4 | 1150.9 |
| 5 Amusement | 180.2 | 143.7 | 175.9 | 180.2Q |
| 15 Automobile Accessories | 336.2 | 290.0 | 325.2 | 333.5 |
| 11 Automobiles | 62.2 | 55.2 | 60.0 | 61.2 |
| 3 Baking (1926 Cl.—100) | 23.6 | 21.5 | 22.9 | 22.8 |
| 3 Business Machines | 325.0 | 296.8 | 325.0R | 322.6 |
| 2 Bus Lines (1926 Cl.—100) | 192.1 | 176.3 | 182.6 | 192.1 |
| 4 Chemicals | 258.6 | 246.2 | 250.7 | 257.9 |
| 2 Coal Mining | 32.4 | 27.6 | 31.0 | 32.1 |
| 4 Communication | 99.7 | 94.0 | 95.7 | 96.5 |
| 13 Construction | 79.6 | 67.9 | 74.7 | 79.6H |
| 7 Containers | 431.3 | 384.8 | 423.5 | 430.5 |
| 8 Copper & Brass | 141.8 | 108.7 | 135.7 | 141.8H |
| 2 Dairy Products | 78.1 | 64.6 | 78.1P | 76.7 |
| 5 Department Stores | 101.9 | 89.7 | 98.8 | 101.9Z |
| 5 Drugs & Toilet Articles | 235.1 | 194.8 | 224.4 | 235.1Z |
| 2 Finance Companies | 296.5 | 268.9 | 291.2 | 296.5 |
| 7 Food Brands | 226.1 | 205.5 | 220.8 | 226.1Z |
| 2 Food Stores | 80.1 | 73.8 | 79.1 | 80.1P |
| 3 Furniture | 116.7 | 110.0 | 111.8 | 116.7 |
| 3 Gold Mining | 1346.1 | 1175.6 | 1340.5 | 1346.1M |

| (Nov. 14, 1936, Cl.—100) | High | Low | Feb. 9 | Feb. 16 |
|---|---|---|---|---|
| 100 HIGH PRICED STOCKS | 106.63 | 99.94 | 104.68 | 106.30 |
| 100 LOW PRICED STOCKS | 247.97 | 202.59 | 238.35 | 247.97Y |
| 6 Investment Trusts | 81.6 | 71.3 | 78.6 | 80.3 |
| 3 Liquor (1927 Cl.—100) | 1185.8 | 1000.2 | 1000.2 | 1096.3 |
| 8 Machinery | 206.4 | 190.5 | 199.7 | 202.0 |
| 3 Mail Order | 163.2 | 140.3 | 154.5 | 163.2Q |
| 3 Meat Packing | 123.1 | 112.8 | 119.7 | 122.6 |
| 13 Metals, non-Ferrous | 299.7 | 232.1 | 287.1 | 299.7H |
| 3 Paper | 36.8 | 33.7 | 35.8 | 36.8P |
| 23 Petroleum | 191.6 | 185.8 | 190.1 | 190.1 |
| 20 Public Utilities | 156.8 | 131.2 | 151.0 | 155.9 |
| 5 Radio (1927 Cl.—100) | 42.0 | 39.4 | 39.4 | 40.7 |
| 8 Railroad Equipment | 110.6 | 97.2 | 106.4 | 108.6 |
| 22 Railroad | 40.8 | 36.7 | 38.7 | 39.5 |
| 3 Realty | 56.7 | 39.1 | 54.8 | 56.7H |
| 2 Shipbuilding | 163.7 | 122.5 | 155.3 | 163.7Z |
| 3 Soft Drinks | 614.0 | 569.0 | 583.5 | 614.0Z |
| 12 Steel & Iron | 145.6 | 119.1 | 141.8 | 145.6H |
| 3 Sugar | 88.9 | 75.7 | 86.3 | 88.9S |
| 2 Sulphur | 264.1 | 241.7 | 259.3 | 264.1 |
| 3 Textiles | 160.0 | 126.7 | 147.4 | 150.1 |
| 3 Tires & Rubber | 47.3 | 42.6 | 45.0 | 47.3R |
| 5 Tobacco | 96.1 | 91.2 | 91.9 | 92.1 |
| 2 Variety Stores | 356.7 | 318.5 | 347.8 | 351.0 |
| 18 Unclassified (1945 Cl.—100) | 113.6 | 98.2 | 109.1 | 111.6 |

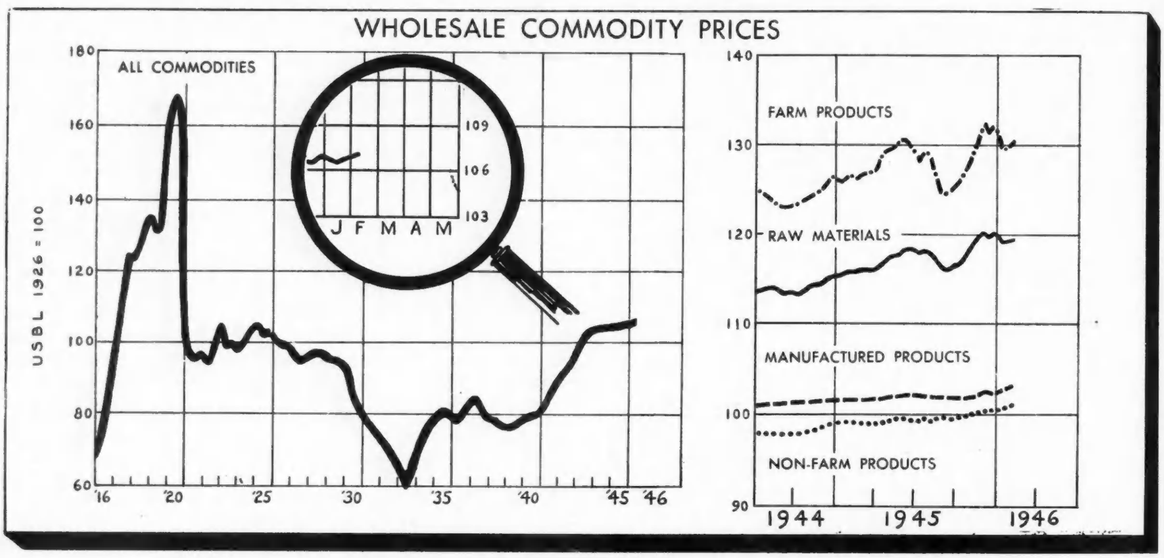
New HIGH since: H—1937; M—1933; P—1931; Q—1930; R—1929; S—1928. Y—New HIGH since Nov. 14, 1936. Z—New all-time HIGH.

# Trend of Commodities

Commodity prices are exerting more and more pressure against ceilings. The Dow-Jones futures index made a new all-time high. Strength in May rye and cotton, the only contracts in the index not subject to ceiling controls, was the dominant feature. All of the other grains held tight against the ceiling. If it were not for these ceilings, there is no telling how high the index would go at this time. The margin requirements were raised on both cotton and grains, but this had no more effect on prices than the 100 per cent requirements recently established for securities.

Spot prices were also higher. The B.L.S. daily index of 28 commodities crossed the 18.8 line to reach a new high since the index was published. We mentioned in our last issue that import commodities had not changed in six months. Since then they have advanced around 2 points. The comprehensive weekly index of the B.L.S. moved above 107 for a new high for the year. It is now in the clear and headed for the peak reached in 1920.

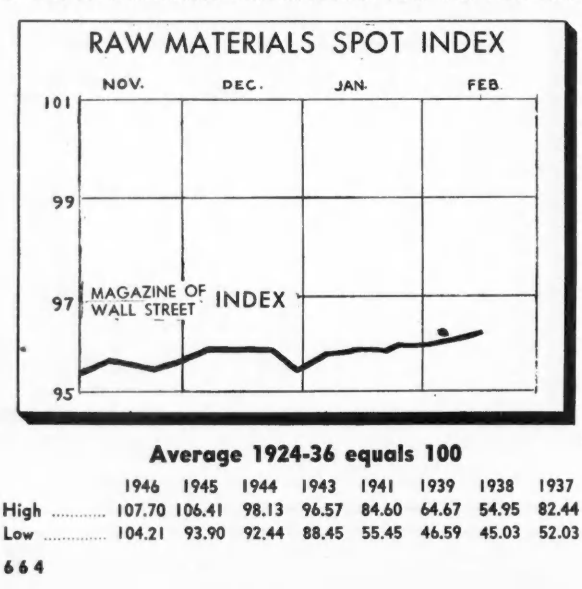
The Government finally got off the fence and decided that a little inflation would do the country less harm than a little deflation. The new wage-price policy means higher prices for everything we use. Just how high prices go depends on labor. If labor really gets to work and turns out finished goods in volume, then the price advance will be nominal and of relatively short duration. If the current strikes are settled only to have a new set of strikes begin, we can look forward to a sharp rise in prices. In such a case one factor which could bring about a price decline and a depression would be a record increase in imports which is remote at this time.




**U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES**

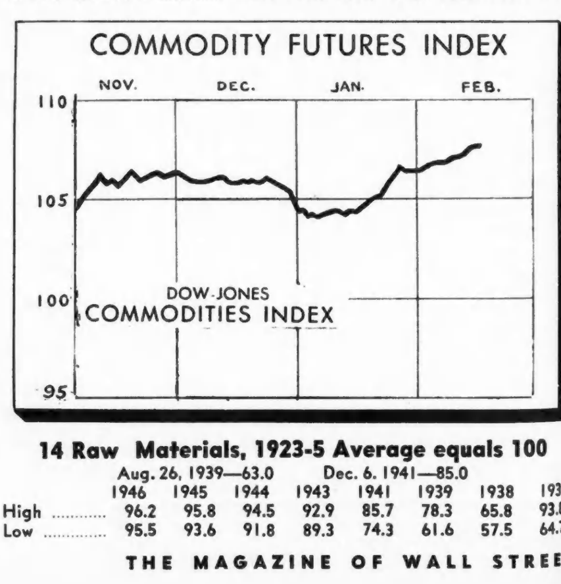
**Spot Market Prices — August 1939, equal 100**

| | Date Feb. 16 | 2 Wk. Ago | 1 Mo. Ago | 3 Mo. Ago | 6 Mo. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|---|---|
| 28 Basic Commodities | 188.4 | 187.4 | 187.1 | 186.9 | 184.3 | 183.3 | 156.9 |
| 11 Import Commodities | 170.7 | 168.9 | 168.9 | 168.9 | 168.9 | 169.0 | 157.5 |
| 17 Domestic Commodities | 200.8 | 200.5 | 200.4 | 199.6 | 194.9 | 193.2 | 156.6 |
| 7 Domestic Agricultural | 235.1 | 234.7 | 234.6 | 232.2 | 225.3 | 224.8 | 163.9 |
| 12 Foodstuffs | 215.0 | 213.3 | 213.7 | 212.7 | 208.2 | 208.4 | 169.2 |
| 16 Raw Industrials | 170.4 | 169.9 | 169.7 | 169.5 | 168.0 | 166.4 | 148.2 |




**Average 1924-36 equals 100**

| | 1946 | 1945 | 1944 | 1943 | 1941 | 1939 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 107.70 | 106.41 | 98.13 | 96.57 | 84.60 | 64.67 | 54.95 | 82.44 |
| Low | 104.21 | 93.90 | 92.44 | 88.45 | 55.45 | 46.59 | 45.03 | 52.03 |




**14 Raw Materials, 1923-5 Average equals 100**

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

| | 1946 | 1945 | 1944 | 1943 | 1941 | 1939 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 96.2 | 95.8 | 94.5 | 92.9 | 85.7 | 78.3 | 65.8 | 93.8 |
| Low | 95.5 | 93.6 | 91.8 | 89.3 | 74.3 | 61.6 | 57.5 | 64.7 |

# COMMODITY HIGHLIGHTS

**OATS** . . . the only grain which is in the surplus column at the present time is oats. The distant contracts of wheat, rye, corn, and barley are all tightly wedged against the ceiling. Only oats are selling at a discount and a small one at that.

Due to the inability to obtain corn, the demand for oats has been very strong. The disappearance in the first half of the current crop year was 726 million bushels, a record. In spite of this, stocks of oats on January 1 totaled more than 1 billion bushels, also a record. Most of this grain was being held on the farm. However, the commercial stocks at the present time are more than double those of a year ago; while the deliverable stocks at Chicago are almost 5 times as large as last year.

The outlook is for a large carryover and a larger crop. Weather conditions, to date, have been favorable. Prices will remain firm in the next two months of heavy feeding, but beyond that time the outlook is for lower prices.

**SUGAR** . . . Any change in sugar prices in the next twelve months must of necessity be upward. Our current price level is being maintained only because the Government is paying a subsidy of 1.4¢ a pound to growers in Hawaii and Puerto Rico. As far as the domestic supply situation is concerned, we have already passed the point of acute shortage and will show a gradual but steady increase in supply for the remainder of the year. This improvement should continue in 1947 and by 1948 there is every indication that we will have a world surplus.

A balance sheet in the domestic supply of sugar in 1944 and 1945 would be as follows:—

| | 1945 | 1944 |
|---|---|---|
| | (Short Tons) | |
| Imports | 4,872,997 | 5,533,259 |
| Cane Production | 404,852 | 503,145 |
| Beet Sugar | 1,043,034 | 1,156,309 |
| Total | 6,320,883 | 7,192,713 |

This table reveals two facts—first, that we are dependent on imports for most of our supplies; and second, that our 1945 supply was below that of 1944 in each category.

What is the outlook for 1946? The combined domestic output of cane and beet sugar has been estimated around 1,750,000 tons, a sharp increase over a year ago. Cuba, our most important source of imports, is scheduled to supply us with 3,650,000 tons, an increase of 475,000 tons. Puerto Rico and Hawaii expect to ship 50,000 more tons this year than last. Grindings in Puerto Rico are far ahead of a year ago and shipments will reach this country in volume in March.

The outlook for 1947 is more favorable. European beet production will be back to normal by that time. World production will probably be above pre-war averages. It must be remembered that inventories are nonexistent and it will take some time to bring stocks up to normal. This should be accomplished in 1947.

We look for a world surplus by 1948. This will be due to two factors—first, a further acreage increase in the countries we have discussed above; and second, the re-entry of the Philippines into world markets. The Philippine Islands normally produce 1,200,000 tons a year.

Half of the mills in the Philippines were destroyed during the war and it will take considerable time to rebuild them. Planters will not increase their seed bed areas until conditions are more settled. It thus appears that the 1947-48 crop will be the first of any size. The addition of these 1¼ million tons to the world production should give us a surplus.

**BUTTER** . For the past two months the production of butter was at the lowest rate since 1920. The trend is upward and by May there should be a definitely better supply situation. In spite of a record output of milk the production of butter will be below a year ago. This is because cream brings a higher price. As long as this is true, only a small per cent of the cream will be churned into butter. There has been some talk about adjusting ceiling prices, but so far it is just talk.

## Changing Oil Picture

(*Continued from page* 640)

fortable progress during the now near-chaotic conditions rampant throughout the country, volume and earnings are bound to contract temporarily compared with wartime peaks, and during the current year it should occasion no surprise if payment of extra dividends became a less frequent practice than in the recent past.

At the moment, production of gasoline from expanded facilities has far outrun demand, so that storage stocks of this basic money maker for the oil industry are piling up. Consequently, competition has already showed its ugly head, leading to price cutting in several heavy consuming sections of the country. Whether more of this trend will become expressive in coming months remains to be seen, but as long as price ceilings remain in effect the dealers rather than the public may be the major gainers. Meanwhile, supplies of much needed fuel oil and kerosene have not kept pace with the seasonal demand, for profit margins are slimmer on this kind of production and refiners naturally prefer to load up with the most profitable items which, with time, they are certain to find a market for. In other words, current production lacks the balance which it would achieve under normal conditions, and oversupply of gasoline has become top heavy,—so heavy, in fact, that prices are obliged to soften.

### Mixed Prospects

In readjusting to peacetime conditions the oil industry faces both good and less favorable factors than many other forms of enterprise, when it comes to the question of taxes. The Supreme Court recently has settled favorably the question of allowable deductions from taxable income of reserves set up on company books for depletion, a very substantial item for producers of crude. As for the elimination of excess profits taxes, the industry in general had to pay a minor amount of these in war years compared with other segments of our economy, because taxable income was greatly reduced by deductions for heavy drilling expenses, and this process will no longer be permissible now that EPT has vanished from the picture. While the tax cushion for many oil concerns will be only modest, fact is that extravagantly conducted drilling operations will taper off now to produce a substantial shrinkage in outlays for this purpose. During wartime, cost of drilling the average well soared to above $50,000 against about half that amount in prewar.

### Higher Wages

The seemingly inevitable wage boost of 18% of course will have its impact upon 1946 earnings, or until such time as price controls are removed. While the current weakness in the gasoline market should justifiably signal farewell to ceiling prices, there are no signs as yet that relief of this kind may soon be expected. So diverse, however, are the sources of income and so highly mechanized are the operations of the larger integrated concerns, that to absorb the increased wage costs should not entail a too serious inroad upon net earnings. Taxable income also will shrink from the additional costs which may be deducted. In a peak year like 1944, consolidated gross income of Standard Oil Co. (New Jersey) amounted to approximately $1.6 billion compared with a domestic payroll of $168 million for about 49,000 employees. While, due to complexities, it is unsafe to infer that in this instance the wage boost would have amounted to 1.8% of gross sales or that such a yardstick could be applied to 1946, it appears that the wage factor in relation to gross sales for this far flung enterprise is less than average. Dollarwise, it might add above $25 million to operating costs, a sizeable sum, and payments to employees in foreign lands would be reckoned with also. To attempt to gauge net results in 1946 would be sheer guesswork and a waste of time, except to predict on general terms that earnings for the first half of 1946 should trend downward, but that in the latter half of the year substantial improvement should set in. Similar trends should also be expected of other large concerns in the industry.

Assuming that the new wage-price policies live up to the hopes of their sponsors, and that industry is able to again make an all-out effort to achieve productive efficiency in biting into the steadily mounting deferred demand, few segments of our economy have brighter growth prospects than those of the oil industry. For a number of years to come, after the ball starts to roll, markets for fuel oil, gasoline, lubricants, ingredients for making synthetic rubber, and thousands of newly developed by-products of petroleum and natural gas are likely to keep all the major giants in the petroleum industry exceedingly busy. Quite aside from the prospect of servicing millions of new automobiles in expanding number, military and commercial aviation are certain to require huge amounts of petroleum products. Already leaders in the industry are bidding astonishing sums for airport privileges, concessions at New York's new Idlewild Field, involving outlays which run into the millions. The coming building boom will bring a vast expansion in needs for fuel oil, and as for industrial markets, it would be difficult to name an enterprise which in one way or another does not use petroleum in some form; diesel powered engines of every description are becoming more and more popular.

### Foreign Holdings

Completion of the Anglo-American Oil agreement goes a long way towards a promise of expanding export business also, for the two countries control about 90% of the world production, aside from Russia. Development of huge oil reserves in the Middle East, the East Indies and in Latin-America will now become well stabilized and distribution policies will gain a new measure of harmony. With Washington in close accord with our major producers to establish

an over-all national oil conservation program, subsidiaries of such concerns as Standard Oil Co. of California, Texas Co. and Gulf Oil Co. are in process of spending hundreds of millions of dollars in the rich oil fields of Saudi Arabia, Iraq and other sections of the Middle East. Among important holders of oil lands in Venezuela and other countries in the Southern hemisphere are Gulf Oil, Creole Petroleum, Barnsdall Oil Co., Pantepec Oil Co., and Amerada Petroleum Co. As ample sources of oil supply are the major factor in the industry, confidence in the future outlook is enhanced by the $2.5 billion invested by American concerns in foreign lands to bolster the enormous domestic output.

### Sound Finances

The larger, well integrated concerns, all said, enjoy soundly predicated potentials for both increasing demand and supply, and as time passes earnings and dividends are likely to reflect these promising advantages, despite the certainty of keen competition in both domestic and foreign fields. Never was the physical and financial structure of the industry so well prepared as now to make the most of its coming opportunities. By consistent reinvestment of reserves established for depletion and by retention of earnings in the business, thirty of the leading oil concerns made capital expenditures of $8.1 billion between 1934 and 1945. After payment of $2.4 million in dividends during the period cited, additions to working capital topped $700 million, although new funds from sale of securities or borrowings amounted to only $400 million. Such figures point to an exceptionally strong status for shareholders of these concerns; to give a clearer view of individual company positions the reader is referred to the appended statistical table, covering a number of important producers and distributers.

Marketwise, the oil shares have tended to lag behind the general market as a rule, although based on the scramble for attractive yields prices have consistently hardened during the past year. Partially accounting for the relative sluggishness, perhaps, has been a feeling that with a slackening of military demand, earnings would rapidly decline, a potential indicated by the current modest price-earnings ratios disclosed by the statistical table. In view of the past records of many concerns appearing on the list, their gratifying financial status and above-average prospects in the longer range, however, current prices do not appear to have adequately discounted strongly marked medium term potentials.

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## Radio Companies

(*Continued from page* 645)

the new colored version recently introduced by Columbia Broadcasting. National Broadcasting, on the other hand, has invested an estimated $20 million in black and white television. Perfection and adoption of the process for televising color would make all present television sets obsolete because of the necessity of broadcasting color via ultrahigh wave lengths. Before television matures, however, it will have to have the support of large advertisers (for which the color version would seem to have the greatest appeal) and a national network of television broadcasting facilities built up. Television is a dynamic and exciting potential but, before it is likely to be much of a factor in the earnings of the industry, many more millions of dollars will have to be invested in its development.

Near term possibilities for an appreciable expansion in the earnings of broadcasting companies are limited. An increase in rates might be justified in those localities where population has grown and some further gains may result from the increased use of daylight time and "spot" broadcasting by advertisers, but on the whole, the outlook is for stable rather than rising earnings.

Confronted with the implications of the foregoing discussion, it is rather obvious that the shares of leading radio receiving set manufacturers are beset with a number of distinctly speculative factors. In time a few of these companies are likely to emerge head and shoulders above competitors, but until they do the investor, unwilling to risk a guess, but desirous of having a stake in the industry, could do so through the medium of such companies as General Electric and Westinghouse Electric which are not only prominent in radio but have widely diversified interests in other major industrial fields as well.

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## Prospects Bright

(*Continued from page* 647)

price competition that before the war restricted profit margins. Economists feel confident that demand for tires from motor car manufacturers together with replacement requirements will be so large for the next two or three years that all available plant capacity can be profitably utilized. On such a basis, it is easy to calculate probable pre-tax net income by using 1941 results as a guide. On a 38 per cent tax rate, almost spectacular earnings can be visualized — provided labor troubles can be avoided.

For the longer term, assurance may be found in wartime development of new products in the field of plastics. Potentialities in this direction are fabulous. Although it is impractical now to attempt to foresee earnings and dividend consequences, there can be little doubt but that the groundwork has been laid for steady expansion in output. This, of course, is favorable, for as pointed out previously volume production is an effective antidote to rising labor costs.

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## Pre-Fabricated Homes

(*Continued from page* 653)

will agree to take delivery of any homes which the producer is not able to sell and will dispose of them for use in veterans' housing.

Pre-fabricated homes have long been a promise to be redeemed at some vague time in the future. The idea of applying mass pro-

duction methods to housing has encouraged the talents of engineers for some years, but the biggest obstacle has been misunderstanding on the part of the public as to just what a pre-fabricated house is, and opposition from entrenched labor unions, fearful that members would lose their jobs. These same obstacles are still present, but are not impossible to overcome. Large department stores are selling and publicizing pre-fabricated houses and their exhibitions are being greeted by hordes of people with delighted "Oh's" and "Ah's". With the strong likelihood that every available building craftsman can be steadily employed for some years to come, unions may be willing to be more co-operative.

If you are a veteran and in need of a home, it might be worth your while to look into the possibilities of pre-fabricated houses.

## Functions of the Export-Import Bank

(*Continued from page* 636)

a portion of the risk for its own account.

(3) Extension of credit to smaller exporters and importers of experience and good repute. Such credits ranging from $5,000 to $20,000 were revolving (were turned over three to four times a year) and were made available upon presentation for discount by the Bank, through its agent bank, of 90-day drafts on approved foreign purchasers.

(4) Loans to foreign countries (such as the credit extended to the Bank of Brazil in 1939) to carry them during the periods when they were temporarily short of dollar exchange. This prevented the tying up of the capital of our trading establishments as blocked funds.

(5) Loans to foreign governments or their agencies to enable them to buy in this country machinery and materials for the construction of productive public works (highways) and for the development of their natural resources, so as to increase their purchasing power and trade.

(6) During the war, the Export-Import Bank extended credits to stimulate foreign production and to expedite transportation of strategic materials needed in the war effort.

(7) Because of transportation difficulties, the Export-Import inaugurated during the war a plan for underwriting letters of credit opened in this country by domestic commercial banks in favor of approved foreign banks. A feature of this service is a provision that payment can be made against manufacturers' certificates of completion or railway bills instead of ocean shipping documents, ordinarily required. The Export-Import Bank assumed the responsibility for shipment of goods within 3 months from the date of payment to the manufacturer.

(8) Since the expansion of the Export Bank's lending power last Summer, some $655 million of its funds were tied in the so-called "lend-lease take out" loans (see table). These loans, made under the provisions of the so-called 3-c lend-lease agreement, are to run for 30 years and bear 2⅜% interest; they provide funds for payment for goods *requisitioned but not contracted for as of V-J Day.*

(9) Not related to the termination of lend-lease are "reconstruction" loans of which thus far seven were made, involving $325 million. They are 5-20 year serial loans, bearing an average interest of 3 per cent, and they provide funds for urgently needed materials, equipment, and services. An exception is the loan to Denmark, which bears a slightly higher interest and is for 5-25 years. The Export-Import Bank acted in this case as underwriter, parceling out the Danish notes bearing ⅞% to the commercial banks. With the service fee included, the banks made 1¼%, while the Export-Import Bank will make 2¼% for the underwriting, guarantee and risk involved. In passing upon the $25 million loan to Greece, the State Department hinted "the extent of possible further American economic assistance will be influenced by the effectiveness with which the Greek Government deals with the problem of economic stabilization".

### Study of Debt Record

In this connection it may be added that under its new policy the Export-Import Bank will study the debt record of each applying country (which may force some Latin American countries to resume payments on their defaulted bonds) and that it will require, in addition to all previous requirements, all information that is also requested by the Securities and Exchange Commission in case the Bank decides to offer any particular country's notes for sale. Most of the notes would bear 4 per cent interest and would run for 20 years. Their sale would release the Bank's funds for other lending.

(9) Last October, the Export-Import Bank set aside $100,000,000 to finance the export of about 800,000 bales of cotton. In the case of European countries, credit will have to be repaid 15 months after the arrival of the cotton abroad; in the case of China, the repayment is to be made after 24 months.

It may be added that from its organization in 1934 up to June 15, 1945 the bank earned about $42 million, of which $18 million

was paid in dividends on the preferred stock held by the Reconstruction Finance Corporation. At that time, only one loan of $178,000 was reported to be in default out of outstanding loans of $208,000,000. The cardinal principle of the Export-Import Bank operations is that it does not compete with commercial banks, but rather cooperates with them. It prefers to receive application for loans through commercial banks and in turn uses them for making funds available to borrowers under lines of credit.

### More Lending Power

The Export Import Bank is not intended to compete with the International Bank either. But because of great demand for medium-term credit to finance exports of capital goods, the Export-Import Bank must carry the major burden until the International Bank is in full operations. Eventually the National Advisory Council on International Monetary and Financial Problems (NAC), which was created by the Bretton Woods Legislation and which, incidentally, has the same membership as the Advisory Board of the Export-Import Bank, is to coordinate our international lending policies by chaneling all foreign loans requests either to the Export-Import Bank or to the International Bank. If the rumors emanating from Washington are correct, that the British loan will be the first and last loan to be sent to Congress for approval, some increase in lending power of the Export-Import Bank may be necessary during the next few months.

Meanwhile the foreign loans already made by the Export-Import Bank, the unfreezing of blocked balances here, and the accumulated gold and dollar reserves are providing most of the foreign countries with more than sufficient purchasing power for our goods. The danger is that competition may develop for goods which are short in supply. In December, the commercial exports of our goods (i.e. exports other than lend-lease or UNRRA exports) climbed to $522 million—almost double the level earlier in the year, leaving an excess of exports of $220 million. At that rate, commercial exports may well reach 6.5 to $7 billion in 1946, which is high enough when one considers that our production is and probably will continue to be retarded by strikes and shortages.

## Evaluating Financial Positions, Profit Margins, and Prospects

(*Continued from page* 631)

the current ratio practically unchanged at about 2.6 to 1. Holdings of U. S. and Canadian securities rose by some $10 million compared with the previous year and these along with cash in the banks fully covered current liabilities of every discription. Despite a relative sales gain of $15 million, rising costs tended to reduce operating income by almost $1 million. Fees earned by subsidiaries on Government contracts also declined by some $2 million. But diminishing EPT taxes supported final net to $13.3 million, practically the same as in 1944.

Perhaps a typical balance sheet to illustrate conditions in the field of farm equipment is that of the Oliver Corporation. Military contracts terminated after V-J Day have been rapidly in process of settlement and in any event no longer were a major part of volume constituents. Decline in sales of war products did reduce sales for the year to some extent, in fact by some $8 million or approximately 12% compared with 1944. Diminishing profit margins on the company's regular production, plus accelerated amortization charged to income, tended to bring net profit down to $1.67 million against about $2.3 million in the previous year. The financial position of the company is stronger than ever with cash on hand nearly equal to all current liabilities and a current ratio of better than 5 to 1. Prospects for the farm machinery makers in the medium term range are bright and this concern is in record good shape to make the most of its expanding opportunities, when the economy finally overcomes current handicaps.

October 31, 1945 annual report of Dresser Industries, Inc., consolidated to reflect the position of its 14 subsidiaries, four of which were acquired only last year, warrants examination. Sales of the company to its primary market, the oil industry, rose by 55% compared with 1944, along with a rise in gross profits of 50%. But selling and general expenses climbed by 113%, leaving pre-tax income almost unchanged from the previous year. A drop of about 60% in reserves set up for renegotiation, however, landed final net earnings on the up side by about 20%. While relative current liabilities remained fairly even, and total current assets rose impressively, bulk of the net gain was in inventories and receivables rather than in cash, a circumstance perhaps accountable for the recently deferred current dividend.

### R. J. Reynolds

In scanning the year end statement of R. J. Reynolds Tobacco Co. against the one of 1944, it will be noted that a sharp gain in total assets was achieved, in main caused by a $58 million increase in tobacco supplies on hand. By sale during the year of $49 million 3.60% preferred stock, however, and by additional borrowings, working capital soared by $50 million, placing the current ratio at about 3 to 1. Sales and net earnings trended upward moderately, the latter despite heavy taxes which will diminish in the current year.

Continued strengthening of its already solid financial position is indicated for Endicott Johnson Corporation, important makers of shoes, to judge by its November 30, 1945 annual report. Available working capital showed an improvement of about $2 million, with cash in the bank exceeding all current liabilities by almost $5 million. Conservative policies have led this concern to charge against operating income each year moderate but in the aggregate sizeable reserves for possible adjustments of inventory

values and for postwar contingencies. Total reserves of this kind now amount to above $6.6 million. If 1946 volume shows little decline from the $102 million shown for last year, elimination of $4.8 million EPT taxes will substantially serve to widen profit margins, with further benefit to shareholders or to working capital position.

## Realistic Survey of the Steels

(*Continued from page* 643)

of reducing tax liabilities and enlarging cash reserves.

The beneficial effect on balance sheets of this development is not generally appreciated. In the case of Bethlehem Steel, for example, it is apparent that substantial financial improvement has taken place in recent years. This has been emphasized by write-off of plant improvements undertaken to fill war contracts. The corporation had unamortized defense projects of more than $72 million at the end of 1944. Probably as much as $50 million of this item found its way into additional working capital through accelerated amortization. In addition, a postwar refund of nearly $30 million was added to "net quick" by reason of the new tax law. Working capital of this company at the end of 1945 is estimated to have approximated $350 million or a gain of almost $60 million for the year. During the war, funded debt was reduced about $30 million and working capital increased more than $200 million. This represents a financial betterment of some $230 million which may explain, in part at least, the advance in this stock in the last couple of years.

### Improved Finances

This trend has been especially notable among the large producers. Youngstown Sheet & Tube has reduced its funded debt by $50 million in the war years and has eliminated its $15 million preferred stock issue. In addition, working capital has enlarged to the extent of about $70 million. This represents a net improvement applicable to the common stock of $82 million, which would be equivalent to almost $50 a share on the outstanding common shares.

Although such financial progress contributes to better earnings only to the extent that fixed charges are lower, it seems apparent that the stronger balance sheets justify more liberal appraisement of common stocks. Accordingly, higher price-earnings ratios may be considered reasonable, especially because managements may feel inclined toward greater liberality in dividends.

It probably is hazardous to present forecasts of earnings for 1946 when it seems obvious that first quarter statements will present such disheartening reading. Nevertheless, unless further industrial complications develop, the major steel producers should be able to attain a high level of earnings by the third or fourth quarter. With increased efficiency and with the benefit of lower depreciation charges, net income available for common stocks should range well above results in any recent year. The smaller marginal companies would seem to have an opportunity of doing relatively better. The outlook for them is not quite so clear at the moment, but if no serious obstacles develop to prevent adoption of price increases, concerns in this category should improve profit margins.

The outlook for fabricators is not so encouraging. They face the prospect of rapidly rising costs of semi-finished steel. Until they can work out a formula for raising their ceiling prices, the squeeze may be more intense for them than for fully integrated companies.

The steel industry always has been regarded as a "feast-or-famine" business. High wage rates wrung from management by powerful unions together with rigid OPA ceilings have tended to threaten realization of the "feast" anticipated from postwar prosperity, but so far as can be discerned at the moment, these repressive factors cannot permanently prevent considerable further fattening before the eventual "famine" arrives.

## Life Insurance—a Vital Factor

(*Continued from page* 654)

buyer of their interest, or sell the surviving partner's interest to the heirs, or else purchase of the heirs' interest by the surviving partner or partners. Any of these will entail the maximum of difficulty.

Let us consider the situation where life insurance supports the partnership agreement. A buy and sell agreement binding the partners irrevocably is drawn and supplemented with an amount of life insurance on each of the partners proportionate to his interests. A buy and sell agreement will set forth the proviso that in the event of the death of the partner the proceeds of the life insurance on his life will

provide the cash with which to buy out his heirs and give complete ownership of the business to the surviving partner or partners. In this way there can be no question but that a fair value previously established will be payable to the heirs and that the survivor or survivors can continue the business without loss or litigation.

The same life insurance which will provide the benefits just mentioned can also provide definite benefits to the partners while they are living. The cash and loan values increasing each year form a fund which may be available as a loan at any time. Likewise, the same policies can be utilized to obtain additional credit from a bank for the purpose of replacing machinery, buildings or such other equipment and business needs as may be necessary. As a matter of fact, life insurance on the lives of partners has a definite value and bearing on the credit status while all the partners are living.

From the aforegoing, it will be seen that any study of life insurance will enable progressive business organizations to obtain not only present benefits of great value but also future ones as well.

## Opportunities for Income and Appreciation in Bonds and Preferred Stocks

(*Continued from page* 651)

The company paid $3.00 on August 24, 1945 on account of arrears on the 6% preferred, which on January 1, 1946 total arrears amounted to $92.50 a share. Improvement in profits for the fiscal year ending June 30, 1946, is expected from the $4.49 per share preferred shown for the year ended June 30, 1945. Payment against arrears should be more liberal and a recapitalization may become feasible.

For the year ended June 30, 1945, provisions for the excess profit tax amounted to $1,228,000 equivalent to $5.75 per share of preferred stock. With the elimination of the excess profit tax on January 1st, plus the fact that sales are expected to rise sharply in the coming months, dividend requirements on the preferred stock should be covered by a much better margin. The preferred stock is listed on the New York Stock Exchange and has had a price range this year of: High 99½; low 59⅛. Due to the improved outlook for earnings and the company's strong working capital position, the preferred stock, while speculative, has possibilities for further appreciation. The market is thin on most preferred stocks and subject to wide fluctuations. This should be taken into consideration when making any bid for such issues. Current price 86.

## Where Do We Stand Now?

(*Continued from page* 626)

cons concerning this new adventure in State control which will flood upon Congress, for the implications involved are enormous and can affect everyone's welfare, for better or for worse. And it would be unwise to draw overhasty conclusions in listening to the pleas of this or that pressure group, or to get panicky if the final outcome does not meet individual preferences. Fact is that lack of co-ordination of valid arguments rather than their basic soundness seriously adds to the complexities which have arisen. Obscured in the background, of course, are far-reaching political forces and alliances, social planning and long range objectives not easy to detect. Equally important in the current confusion is an obvious exaggeration or ignorance by public officials and experts of the widely discussed subject of "inflation," and overemphasis on the plight of badly termed "Under-privileged Classes." That everyone in the country would like to see his hard-earned income stretch as far as possible goes without saying; a spiral wage-price rise in the long run is something to dread. But none of the numerous forces which combine to produce such a potential disaster alone can prevent or create it. Thus when one side champions full production, another, price controls and still another, income adjustments as being the sole panacea, all have a basis of truth but only half truth. Too frequently overlooked in current hectic discussions is the inescapable fact that necessary Government reliance upon bank credit in wartime has created two dollars of purchasing power for every dollar of goods available, and that when more goods are produced just that much additional buying quality will appear upon the market. Not that this factor alone is the determinant, but that it is a force which can not be overlooked in the over-all search for a corrective.

As for "classes," there are no such things in this Land of Free-



*Information* FOR

# INVESTORS

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On request on your letterhead, but without obligation, any of the circulars listed below will be sent direct from the issuing firm. **Limit each letter to a request for one circular,** giving your name and address.

ADDRESS: Information for Investors Department—Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

**Bank Stocks**—16 New York and 14 out of town Banks discussed in circular issued by large New York Stock Exchange firm.

**Primer for Investors**—Guide book for new investors to explain the terminology of Wall Street. Also a section devoted to estates, trusts and wills. Prepared by large N.Y.S.E. member firm.

**Know-As-You-Go Guide**—Descriptive leaflet of the Handy Record Book for investors, providing a simplified record of capital gains and losses. Method outlined to keep investment records in "automatic" order.

**Francisco Sugar Co.** — Circular prepared by N.Y.S.E. member firm.

**Rights — Warrants — Scrip** — Member firm N.Y.S.E. has available complete information on these matters.

dom and Opportunity, despite all efforts of the New Deal dreamers to create them. In the greed for power, politicians and strong labor groups, however, have found the terminology useful in attracting votes, until all sight has been lost of the general welfare of the vast majority. Everyone glories in the effort to sustain living standards at increasingly peak levels, but when the struggle tends to heap up gains for the highest paid group of workers at the expense of the nation as a whole, it can only spell eventual deterioration. If inflation is as dangerous as Washington shouts, the folly of saddling the economy with an estimated additional \$10 billion purchasing power through the wage boost is obvious.

Until July 1, at least, industry will be obliged to push ahead blindly towards the promised era of unprecented prosperity, conscious at every step that profits may be severely squeezed by continued price controls and all-time high costs of labor and materials. Only Congress can decide how much longer the controls will continue. While a definite pattern for both wages and prices has been set for the major steel concerns, Washington has announced that hereafter no predetermination of price increases will be granted until after wage disputes have been settled. Such a policy is likely to drag out for months perhaps interrupting the operations of thousands of independent producers, if strike activities spread. Thus even when and as the steel, electric, automotive and farm equipment industries get under full headway, deliveries of a single essential part from some small supplier may have to be awaited, before the flow of production becomes smooth.

Investor anxiety in the current confusion is of course heightened by the announced policies regarding potential price increases. Despite reassuring utterances from Washington that fair play will be the rule, the yardstick of earnings for 1936-39 is to be the determining factor. As more than 250,000 concerns in 1939 reported no profits at all, and the base period itself was generally sub-normal for industry as a whole, the broad outlook for fair profit margins is not too reassuring. • Although shareholder's profits presently are subject to double taxation, no recognition by the Government has been granted to this 20-million segment of the population that living costs have soared for them as much as for the worker.

Summing up, industry in the near term will accelerate to record speed again, but for some time to come, earnings reports are likely to show drastic variations in interim prosperity. Red ink and dividend reductions for a while may become more expressive in the daily news, especially in industries where wage costs are an important factor in determining earnings. On the other hand, it must be realized that manufacturing supplies a minor portion of the national income and that many other enterprises will continue as currently to enjoy above average gains. Above all, between improved technology and proven efficiency, there can be no doubt that management generally will outride the squall successfully, given a bit of time. If their burden proves too heavy, the nation is bound to alleviate it at the polls.

## For Profit and Income

(*Continued from page* 657)

eastern lines, are going to be quite poor. The steel strike took a heavy toll in freight revenue. Then, too, most roads probably will make deductions for the coming retroactive wage increases, though the amount of the latter is still to be determined. EPT carryback credits are unlikely to be taken into income accounts until late in the year. It is believed the wage boost will be around 15%. Any offsetting rate increase granted by the ICC could hardly take effect before about the fourth quarter. Will the rail average ignore a good many months of sharply lower earnings? This column doubts it.

### Fiscal-Year Companies

The idea that companies with fiscal years ending other than Dec. 31 will not get prompt tax relief is not so. Profits after Dec. 31 are ex-EPT for all. That will be reflected in interim reports of fiscal - year companies, as well as of calendar-year companies. Some fiscal-year companies boosted earnings for the last three months of 1945 by averaging tax liability to take the lower 1946 rate into account. Naturally, for such companies, the first 12 months under the 38% rate will be not the current fiscal years, but the next ones.

### Inflation Note

At the end of last year there were only three stocks selling on

the Salt Lake City Stock Exchange for less than 3 cents a share, none under 2 cents. Earlier in the year, 20 issues sold under 1 cent, 13 others under 2 cents. You can get a lot of stock for your money out there—but wallpaper is still cheaper.

## Significant Shifts In Investment Trends

(*Continued from page* 628)

Reserve Bank of Chicago, advocates exchanging marketable federal securities now held by the banks for nonmarketable issues that can be sold only to the Federal Reserve System, and then only when banks need cash. He further recommends the transfer from commercial banks to Federal Reserve banks all government securities held by the former. This would be accomplished by having the Treasury borrow directly from the Federal Reserve System for the purpose of refunding maturing issues, thus gradually relieving commercial banks of their holdings.

More drastic than either of these suggestions, is the one advocated by a group in Congress. This group favors the non-payment of interest on all bank-held Treasury obligations.

It was hoped (wishfully) that the Treasury's announcement of plans for meeting March 1 maturities would carry some hint or clue as to a possible change in policy. But no mention was made of any revision nor did the terms of the financing carry any suggestion that any change was even being considered. The announcement was of historical import, however, in that it marked the first reduction in national debt in more than fifteen years. A total of $2,779,720,600 in Government securities will be retired from cash on hand. The effect will be to put even more cash in the hands of the public and provide a further inflationary fillip.

Secretary of the Treasury Vinson has repeatedly stressed the need for acting to maintain a long rate of interest on the national debt. An increase of only ½ of 1 per cent would raise the cost nearly $1,000,000,000 annually. But no resulting increase in taxes could be as detrimental to the interests of those relying on fixed-income securities as has been attrition in interest rates resulting from the Treasury's preoccupation with low cost financing.

Granting the soundness and force of the arguments being put forth in favor of a revised policy, they may be looked upon as suspect by a Congress which thinks that even now the banks are being permitted to earn too much at the expense of the Treasury.

But what about the 20 million investors, holders of insurance policies and savings bank deposits, trust beneficiaries, educational and religious institutions? Because they have no articulate spokesman, or a strong union, or a political pressure group, they will continue to be faced with the problem of balancing a declining rate of return with a rising cost of living. Unless the current signs prove unreliable, that problem will continue to plague investors for some time. It evokes the spectre of millions of investors accepting the easier, but potentially more dangerous, course of diverting their capital to securities unsuited to the standards of safety and dependability, if indeed many of these investors are not compelled to use some of their capital to make up the deficiency in income and outgo.

Should the Treasury revise its policies and take steps, for example, to raise the interest rate on certificates, the effect would be to reduce the pressure of demand on longer term maturities on which currently the yield is more attractive. This would also bring about some adjustment in the present price level of long term bonds. Such adjustment would probably be of fairly modest proportions, so long as there remains the huge reservoir of available funds. Recent high prices may in time prove to have marked the top of the twelve year bull market for bonds, but it is extremely unlikely there will

occur any marked reversal in the trend, at least not in the forseeable future.

## As I See It!

(*Continued from page* 621)

doubts Russian intention to establish world hegemony is indulging in the wishful thinking that grows out of a polyanna psychology which prefers to believe in rosy dreams, rather than face realities with their stern and unpleasant facts.

Russia has succeeded up to now only because the grandiose schemes were belittled and minimized,—and labeled as fantastic, —a weakness in unimaginative little men when they rise to high places.

If Russia succeeds in overrunning Iran, her next move will include Palestine and Turkey. Palestine—the great oil terminus and gateway to India; Turkey because it lies athwart the ancient routes which lead both east and west, and controls the approaches to Africa and the orient.

The Russian intriguers are very sure of themselves. It is evident in every move they make. Their attack on Canada for exposing their espionage activities in that country was a threat against the United States as well as Canada. The northernmost sections of the two countries practically touch Russian territory.

The situation is growing more acute daily. Although a year has already passed peace seems as far away as ever, while conditions are worsening for the people of the war devastated countries — and with eruption after eruption in various parts of the world.

There seems only one answer, —a union of the two great democratic setups, of the United States and Great Britain and their affiliates in close collaboration with the UNO. In no other way can Russia be halted with all that it means in terms of the further extension of spiritual and economic slavery.

To hesitate would merely invite the deluge. As citizens we cannot sit on the sidelines much longer. The times call for union now.



## Answers to Inquiries

(*Continued from page* 658)

term debt outstanding amounted to $8,508,640. The company has no funded debt nor preferred stock now, its capitalization consisting of 4,351,315 shares of common stock and International Telephone & Telegraph Co. own over 50% of same. (846,377 shares of the total shares shown are held in the treasury.)



Dividends, if any, will be modest as the company will undoubtedly continue to build up cash for further expansion.

At current market price 14½, the common stock has merit as a low priced speculation.

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